

# FINANCIAL HISTORY

THE MAGAZINE OF THE MUSEUM OF AMERICAN FINANCE



*Infrastructure Series: Bridging the San Francisco Bay*

*Markets of the Roaring '20s: Are We Headed for Another Crash?*

*Creators of Character: Entrepreneurs of the Theater-Costume Business*

ISSUE 139 | FALL 2021

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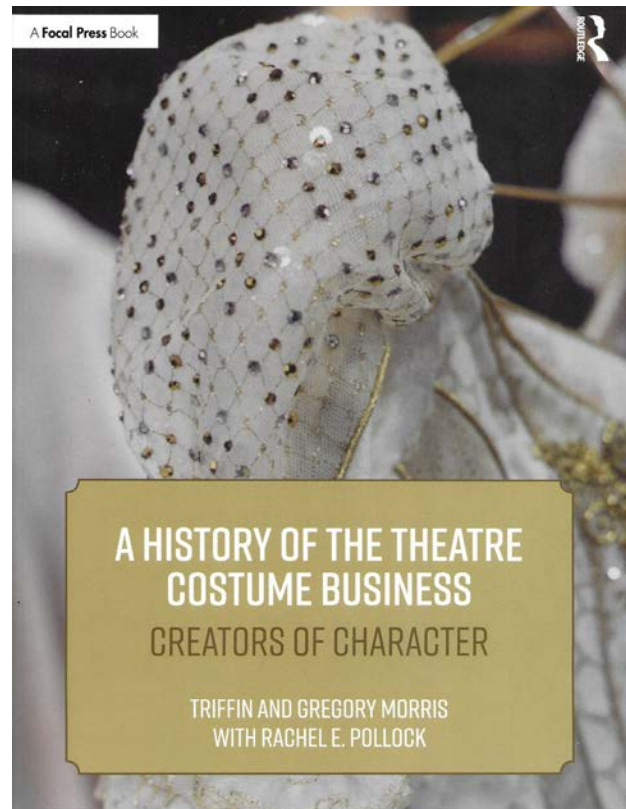
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# FINANCIAL HISTORY

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# MoAF Launches Adult Financial Education Series and Partners with MCAAD to Develop Finance-Themed Exhibits in Washington, DC

THIS SUMMER AND EARLY FALL have brought a number of new programs and opportunities to the Museum, as we continue to seek creative ways to expand our reach. In late July, we launched a new weekly financial education series for adults, in partnership the New York Public Library's Thomas Yoseloff Business Cen-

ter. The semester are awarded partial college scholarships.

Also this fall, we signed a consulting and licensing agreement with the Milken Center for Advancing the American Dream (MCAAD), an exciting project in Washington, DC with the mission of making the American Dream an attainable reality for millions of people around the world by expanding access to education, health and economic freedom, and by empowering an entrepreneurial mindset that takes full advantage of opportunity.

Our Museum's role in this project will be to assist as curatorial consultants for the center's financial and economic content. We will also potentially license content and/or loan artifacts for display. MCAAD plans to open in July 2023 in several historic buildings, including the former headquarters of Riggs Bank, across the street from the US Treasury.

Our Fall 2021 events season launched on September 14 with Thomas Peterffy, chairman and founder of global electronic brokerage firm Interactive Brokers Group, in an interview with CNBC Senior Markets Correspondent Bob Pisani. Other programs this fall include a panel discussion on the cryptocurrencies market, as well as talks with former Chicago Mercantile Exchange (CME) Chairman Leo Melamed on his memoir, *Man of the Futures*; Ted Seides on his extremely popular *Capital Allocators* podcast; and Wall Street investment strategist Michael Mauboussin on his new book, *Expectations Investing*. A list of upcoming events can be found at [www.moaf.org/events](http://www.moaf.org/events), and recordings of past events are available at [www.moaf.org/videos](http://www.moaf.org/videos). We are very grateful to all of our members and supporters for your continued support of the Museum and participation in our programs. \$

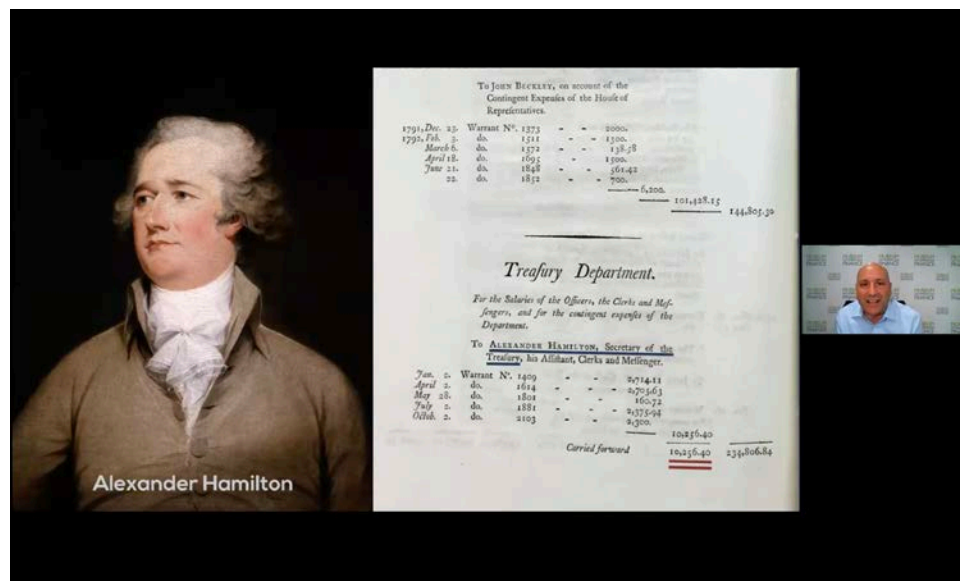


## Message to Members

David J. Cowen | President and CEO

ter. The nine-session series, titled "Investing A to Z," included primers on such topics as an introduction to stocks, investing in bonds, the importance of interest rates and understanding mutual funds. All programs were free and open to the public and were incredibly well-attended, with nearly 3,000 participants, demonstrating a critical societal need for basic financial information. Our former chairman and current trustee, Dick Sylla, and I taught two of the programs in this series, as did two of our Fordham colleagues, along with investment specialists from FINRA, the SEC and the OCC. Due to the overwhelming response to this program, we expect to make this an annual series.

In the meantime, our next educational program series will be our annual Museum Finance Academy (MFA) for high school juniors and seniors, which will run in November over Zoom. In the MFA, students learn the basics of personal finance, including how to aspire to financial independence, develop an appreciation for savings, make financial goals and learn to avoid scams. Upon successful completion of the course, all students receive a certificate, and the top four students of



MoAF President David Cowen speaks on "Origins of the Capital Markets" in the "Investing A to Z" Series.

# MoAF Presents Virtual Panel Discussion on the Cryptocurrencies Market

By Mindy Ross,  
Director of External Relations

ON THURSDAY, SEPTEMBER 30, the Museum brought together leaders in the cryptocurrencies market to discuss the current state and the future of cryptocurrencies as a major factor in financial markets.

The evening began with welcome remarks from Museum President & CEO David Cowen followed by an introduction to the program and panelists by Protiviti Managing Director, Americas Financial Services Leader, Michael Brauneis. The program featured a panel discussion moderated by Camila Russo, Founder of The Defiant, thought leader, author and journalist. The featured panelists were: Brian Brooks, Former Comptroller of the Currency; Charles Cascarilla, CEO and Co-Founder, Paxos; J. Christopher Giancarlo, Senior Counsel, Willkie Farr & Gallagher and Former Chairman, US Commodity Futures Trading Commission; and Jan van Eck, CEO, VanEck.

The panelists emphasized their shared view that crypto will become mainstream and compared the issues and acceptance hurdles to the early days of the internet. They discussed the biggest risks to the crypto market: regulatory uncertainty and the resultant lack of clarity; and over-regulation, citing China as an example of constraining government regulation. They emphasized the delicate balance in the role of government regulation between suppressing innovation and managing the risks inherent in the crypto market.

There was extensive conversation on the role of crypto in furthering decentralized finance, blockchain and digital ledgers and, ultimately, the democratization of finance. The outlook for expanding crypto in the investment arena and uncertainties surrounding taxing cryptocurrency transactions led to extensive conversation and many questions from the audience of more



Participants in "The Cryptocurrencies Market: Where Is It Headed?" program included (clockwise from top left): Michael Brauneis, Camila Russo (moderator), Brian Brooks, Charles Cascarilla, J. Christopher Giancarlo and Jan Van Eck.

than 500 guests. Sponsors for the program were Protiviti Global Consulting, along with VanEck, and the video can be viewed on the Museum's website at [www.moaf.org/](http://www.moaf.org/) crypto-program.

This program was built upon two previous events the Museum held on this important topic. In 2015, "Bitcoin and the Future of Payments Technology" featured one of the panelists from the current program, Charles Cascarilla, along with Lawrence Summers. The Museum famously gave each attendee a \$5 fractional share of

bitcoin through panelist Jeremy Allaire's company, Circle. In 2018, the Museum held "The Blockchain and The Future of Everything," with the moderators from the previous program, Michael Casey and Paul Vigna, and featured the Winklevoss brothers and Joe Lubin.

Given the strong interest in this topic among the Museum's members and followers, as well as the ongoing critical events in the cryptocurrencies market, the Museum expects to revisit this important financial revolution in the near future. \$

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# Will Rogers, Stocks, Banks and Eggs

By Brian Grinder and Dan Cooper

WILL ROGERS was born in Indian Territory in 1849. Both of his parents were part Cherokee, and he was proud of that heritage. Today, it is hard to fathom how this unassuming, seemingly unsophisticated cowboy from Oklahoma was able to master every entertainment medium available to him from vaudeville to newspapers, to movies and radio; Will Rogers did it all.

Rogers wrote and commented on just about everything, including Wall Street. We first encountered the Rogerian view of the stock market in a now long out-of-print investments text that introduced one chapter with the advice Rogers gave at the end of his *Daily Telegram* column for October 31, 1929, “Don’t gamble; take all your savings and buy some good stock, and hold it till it goes up, then sell it. If it don’t go up, don’t buy it.” While it may sound ridiculous, it evidently inspired Albert W. Thomas, who used the grammatically correct version—*If It Doesn’t Go Up, Don’t Buy It*—as the title of his 1999 investment strategy book!

Rogers was famous for his ungrammatical style. Ben Yagoda opens his biography of Rogers with a 1930 memo from the managing editor of *The New York Times* to the paper’s proofreading room, “Please do not correct Will Rogers’s English or spelling. His little pieces are unique because he makes his own English. When you ‘improve’ it you are taking away part of the personality he is selling to readers.” That memo must strike terror in the heart of every sixth grade English teacher who reads it.

Much of Rogers’s fame emanated from his successful effort to portray himself as a common man. He was one of us. As new technologies swept the nation and the Great Depression reared its ugly head, Rogers was seen as a down home voice of calm reason. In a nation where the federal government seemed to be out of touch with most people and where Wall Street spoils largely poured into the coffers of already rich East Coast robber barons, Rogers’s writings struck a chord.

## THOUGHTS OF WILL ROGERS ON THE LATE SLUMP IN STOCKS

Sure must be a great consolation to the poor people who lost their stock in the late crash to know that it has fallen in the hands of Mr. Rockefeller, who will take care of it and see that it has a good home and never be allowed to wander around unprotected again.

There is one rule that works in every calamity. Be it pestilence, war or famine, the rich get richer and the poor get poorer. The poor even help arrange it. But it’s just as Mr. Brisbane<sup>1</sup> and I have been constantly telling you, “Don’t gamble”; take all your savings and buy some good stock, and hold it till it goes up, then sell it. If it don’t go up, don’t buy it.

Yours,  
Will Rogers  
October 31, 1929

For instance, in his March 18, 1923 *Weekly Article* for *The New York Times*, Rogers wrote on the folly of easy credit, which he described as a “Sucker Game.” Reflecting on the received wisdom of the time, Rogers wrote, “You can’t break a man that don’t borrow; he may not have anything, but Boy! he can look the World in the face and say, ‘I don’t owe you Birds a nickel.’” Instead of Congress passing legislation making borrowing money easier, Rogers suggested outlawing borrowing altogether and forcing bankers—such as “the Ali Baba of this gang” of bankers J.P. Morgan, “Charlie” Schwab and “Barney” Baruch—to find real jobs.

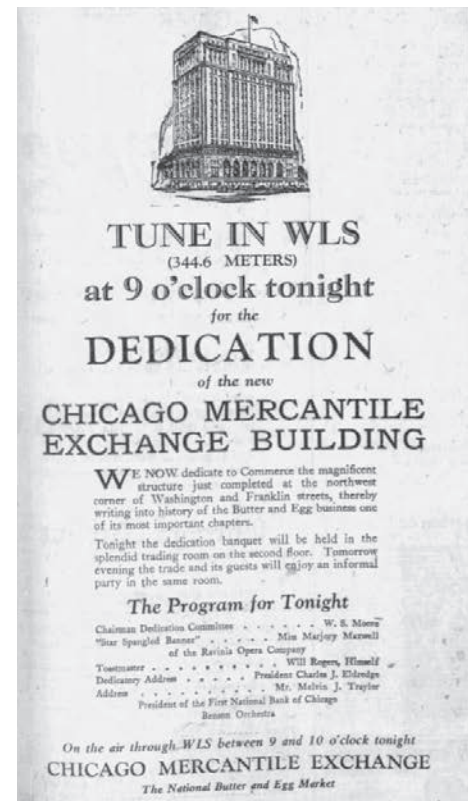
“So you see it’s not from a personal view that I am abolishing Banks,” Rogers concluded, “It’s just that I don’t think these Boys realize really what a menace they are. As far as being good fellows, personally, I have heard old timers talk down home in the Indian Territory and they say the James and Dalton Boys were the most congenial men of their day, too.” Great Plains farmers and working-class city dwellers all over the nation, no doubt, nodded approvingly as they read this column over their morning cup of coffee.

In April 1928, Rogers was invited to be the toastmaster for the dedication of the new Chicago Mercantile Exchange (CME) building. It seemed odd for the CME to choose Rogers for this honor. The program for dedication, which was printed in the April 25 edition of the *Chicago Daily Tribune*, proudly listed the toastmaster as “Will Rogers, Himself” and urged readers to listen “On the air through [radio station] WLS between 9 and 10 o’clock tonight.” Futures historian Jerry H. Markham observed that the CME “for some unknown reason boasted that its building had been dedicated by Will Rogers in 1928.”

Why would a commodities exchange invite someone described as “the nation’s cracker-barrel philosopher” to speak on this auspicious occasion? Part of the answer can be found in the public perception of the CME. Long known to outsiders as “The Whorehouse of the Loop,” the CME, according to financial journalist Bob Tamarkin, was a “roughhouse of trading cliques.” Members of the older, more stately Chicago Board of Trade (CBOT) tended to look down their noses at the CME. *The Wall Street Journal* described the tension between the two exchanges as



Will Rogers and his son in Chicago, 1928.



Program for the opening of the Chicago Mercantile Exchange (CME) building listing Will Rogers as toastmaster, April 25, 1928.

a longstanding “rivalry between the blue-blooded CBOT and the upstart CME.”

In his memoir, former CME Chairman Leo Melamed spun the pugnacious, second fiddle nature of the CME in a positive vein, writing that although the CME “was light years behind” the CBOT:

The Merc was serious business and, similar to my former boss Merrill Lynch, was certainly bullish on America. But that didn’t mean we had to be staid, stuffy, stiff and devoid of attitude. No, we weren’t Wall Street. And we weren’t stocks. We were something else that grew out of the nation’s heartland: pioneers, we told ourselves, fueled by ingenuity and guts, and dedicated to preserving the spirit of the frontier. As far as I was concerned, the futures industry was still a vast business frontier waiting to be explored and developed. And maybe all that pioneering talk sounded corny, but

this was Chicago, the tough, big-shouldered city with nerves of steel.

The unpretentious Rogers, who hailed from the nation’s heartland, fit right in with the scrappy CME crowd.<sup>2</sup>

In his address that night, Rogers proclaimed in wonder, “You can buy eggs on this market the same way you can buy General Motors stock. So, get you some eggs,” he continued, “and hold ’em. Somebody will eat ’em. If you can’t pay your cold storage bill, hardboil ’em and sell ’em for picnics.”

Rogers’s understanding of commodities markets was evidently on par with that of most other Americans. The *Chicago Tribune* described the address aptly, “Will Rogers, who as toastmaster of the Chicago Mercantile exchange dedicatory banquet speeches, scrambled words like a good chef scrambles eggs, the transformed article being palatable and healthful.”

Humor is curative and can help ease

tensions between factions who disagree, often vehemently, with each other. If we can laugh at ourselves and our own absurdities, if we can see our position from a different, non-threatening perspective, perhaps we can begin to work through our differences and make real progress. Rogers’s humorous take on the issues of his day was a gift to the nation.

Although humor won’t resolve the long-running tension between Wall Street and the rest of the country, it can often help lower the temperature and allow cooler heads to prevail. The same is true in the political realm. We don’t need to wish Rogers back; he would probably be canceled as a racist or a bigot today. But we do need a good laugh now and then as we deal with the financial stress and strain from the covid pandemic.

Will Rogers deserves the final word: “I tell ’em that this country is bigger than Wall Street. If they don’t believe it, show ’em the map.” 💰

Brian Grinder is a professor at Eastern Washington University and a member of Financial History's editorial board. Dr. Dan Cooper is the president of Active Learning Technologies.

## Notes

1. Arthur Brisbane, columnist for the Hearst papers, wrote a competing daily column entitled *Today*. Rogers may have had Brisbane's column entitled "Why Are All Men Gamblers?" in mind when he wrote this *Daily Telegram*.
2. Rogers would have objected to being called a pioneer. When Oklahoma became a state, his father was forced to give up hundreds of acres of land to incoming settlers. As a member of the Cherokee Nation in Indian Territory, Clem Rogers controlled and managed land but didn't own it. Thus, Will Rogers's view of pioneers was less than idyllic. In 1935 he wrote, "We're always talking about Pioneers and what great folks they were. Well. If we stopped and looked history in the face, the Pioneer

wasn't a thing in the world but a guy who wanted something for nothing. He was a guy that wanted to live off everything that nature had done. He could cut a tree down that didn't cost him anything, but he never planted one and he plowed up land that should have been left to grass." However, as a Native American, Rogers clearly embodied the "spirit of the frontier."

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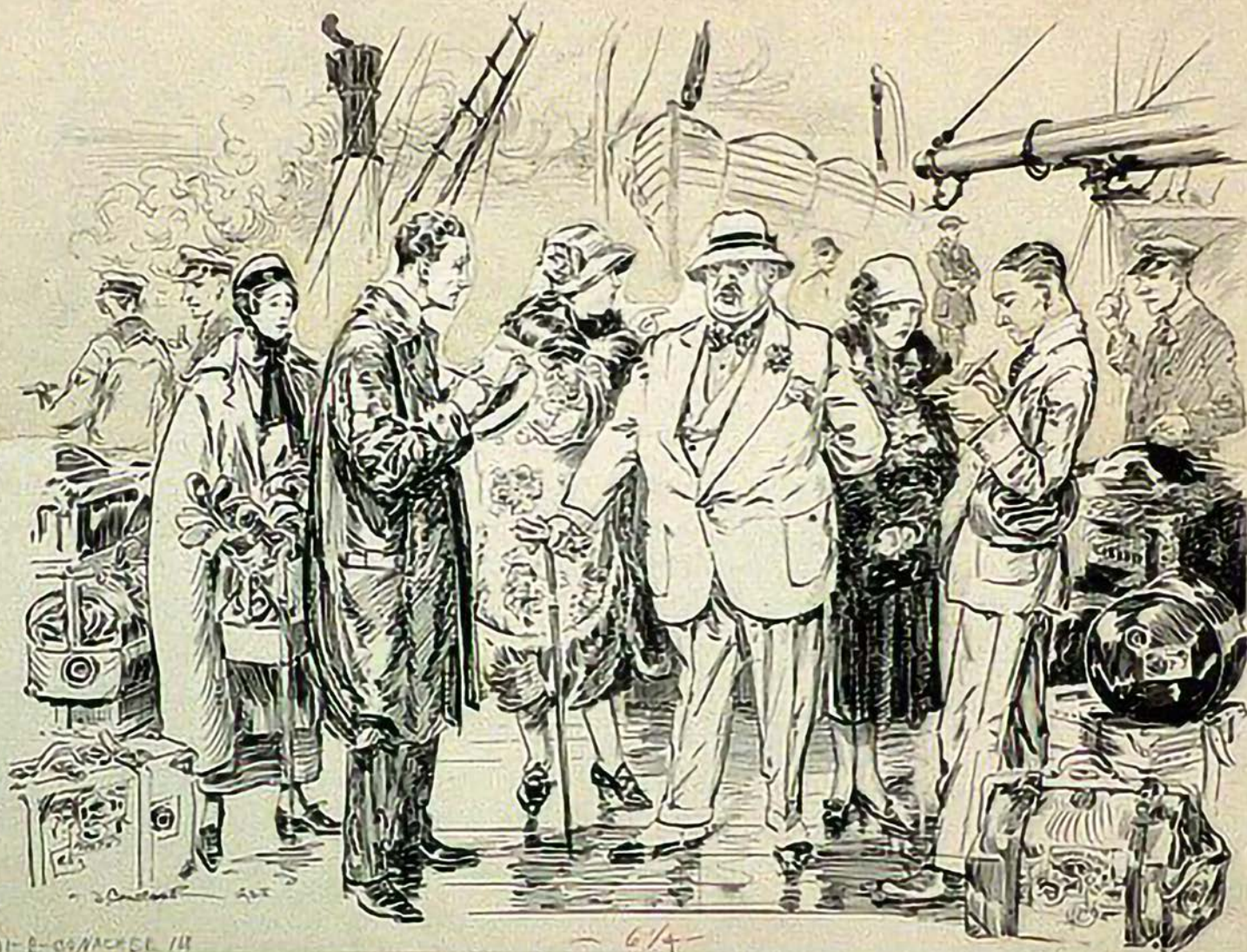
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# MARKETS OF THE ROARING '20s

## Are We Headed for Another Crash?

By William R. Gruver

ECONOMIST JOHN KENNETH GALBRAITH famously said of those attempting to predict future stock market performance, “There are two kinds of forecasters: those who don’t know, and those who don’t know they don’t know.” He also quipped that the only function of economic forecasting was to make astrology look respectable.

“Idea for Economy Number” cartoon, originally published in *Life* magazine, 1925.

His point is well made—it is impossible to know with certainty what tomorrow holds. There are simply too many variables in today’s complex markets, each changing at a breakneck speed. To best prepare for the future, ironically, investors might be better served to look to the past for trends that might impart some wisdom.

In that spirit, one can’t help but compare Covid-era America with the events of 100 years ago. In 1918, the United States was battling a pandemic, the Spanish Flu, which killed more people worldwide in 15 months than the bubonic plague had in a century. Communities from coast to coast faced the aftermath of acute economic and racial unrest. In 1920, Warren G.

Harding was elected President on a campaign promise of a “return to normalcy.” The names have changed, but the story sounds eerily familiar.

Given the parallels, it is reasonable to wonder—are we entering a bull market similar to the 1920s when stock prices more than doubled? And, if so, are we in a financial bubble<sup>1</sup> headed for another 1929 stock market crash?

Financial bubbles are not always bad things. In fact, bubbles can be great for investors who can exit before market prices reach unsustainable levels. Leaving a roaring bull market, however, is harder than it sounds. It is contrary to human nature, akin to leaving a party at its peak.

In the 1920s, a few legendary investors managed to do exactly that. Among them were Roger Babson, founder of the eponymously named college; John Jakob Raskob, builder of the Empire State Building; and Joseph Kennedy, first chairman of the SEC and father of President John F. Kennedy. Each of these investors made—or added to—their fortunes by knowing when to say “enough.”

There is a broad suspicion the US equities market is now experiencing a bubble. It took only a few short months in 2020 for investors to pivot from distress to euphoria as stock prices soared above pre-pandemic levels. The price-earnings (P/E)<sup>2</sup> ratio provides additional evidence that shares might be overvalued in today’s market.

The historical average P/E ratio for the S&P 500 is 15×. Today’s ratio, using data from the last 12 months, is 30×. It has only been this high twice in history—during the dot-com bubble in the late ’90s, when it reached similar levels, and the 2008 financial crisis when it peaked at 70×.

One could also calculate the ratio based on estimates of future earnings per share over the next 12 months, to account for the negative effects of the pandemic lockdowns on earnings. In doing so, one would find the P/E ratio to be 20×, still above the historical average. Regardless of how the numbers are crunched, the conclusion is clear—we are in a bubble.

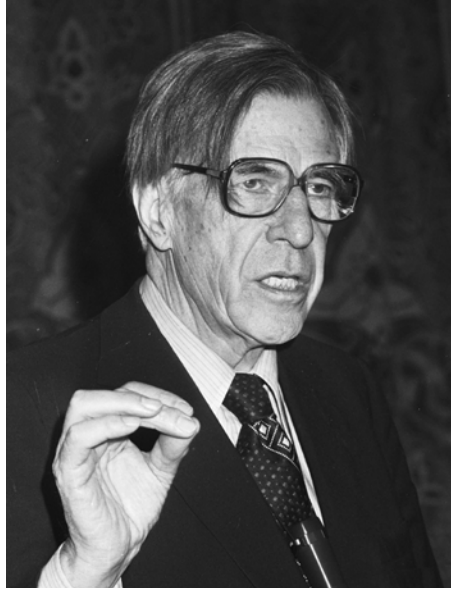
But the question remains, how close is the bubble to bursting?

After the 1929 crash, Galbraith identified four factors that support financial bubbles. Imagine a four-legged stool—when all legs are intact, the market is solid as a rock. As legs begin to break, the stool becomes increasingly perilous to sit on. In a similar fashion, when a critical mass of these indicators are disrupted, the bubble bursts.

The following four factors, in various orders and extremes, have successfully explained the 1929 crash, as well as subsequent crashes.

## 1. Laissez-Faire Government

Financial bubbles require regulatory and tax policies that are friendly to business. This has little to do with politics, and everything to do with the impact of public policy on earnings. In the 1920s, the beginnings of congressional tariff discussions—that eventually became the Smoot Hawley Tariff Act—were seen by market professionals



Dutch National Archives

Economist John Kenneth Galbraith, who famously said of those attempting to predict future stock market performance, “There are two kinds of forecasters: those who don’t know, and those who don’t know they don’t know.”

as a signal that laissez-faire was coming to an end. Before the 1987 crash, mere congressional talk of eliminating the ability to deduct interest on high-yield bonds signaled to the markets that the Reagan era of hands-off authority was ending and contributed to the bubble bursting.

The Biden administration has played an aggressive role in attempting to mitigate the aftermath of the pandemic with passage of the American Rescue Plan, along with publishing 52 executive orders in his first weeks in office and proposing significant increases on individual and corporate taxes.

These interventions, along with the appointment of Gary Gensler as SEC Chairman—who advised on the Sarbanes-Oxley Act to address the excesses of the dot-com bubble—indicate the climate will not be as friendly toward business as it had been under prior administrations. This leg of the stool is cracked but not fractured.

President Biden has thus far not followed the preferences of the most extreme elements of his party. For example, despite Senator Bernie Sanders, et al advocating for a \$5 trillion infrastructure plan, President Biden has agreed to the \$1 trillion infrastructure package approved by the Senate. Were the President to succumb to these extreme elements, the crack in this leg of the stool would become a compound fracture.

## 2. Leverage

Is the stock price being supported by large amounts of borrowed money? Financial bubbles are inflated when investors borrow money to buy more shares than they would have been able to afford otherwise. Borrowed money accelerates volatility, which is great in a bull market when it helps push stock prices upward. However, the reverse can be catastrophic.

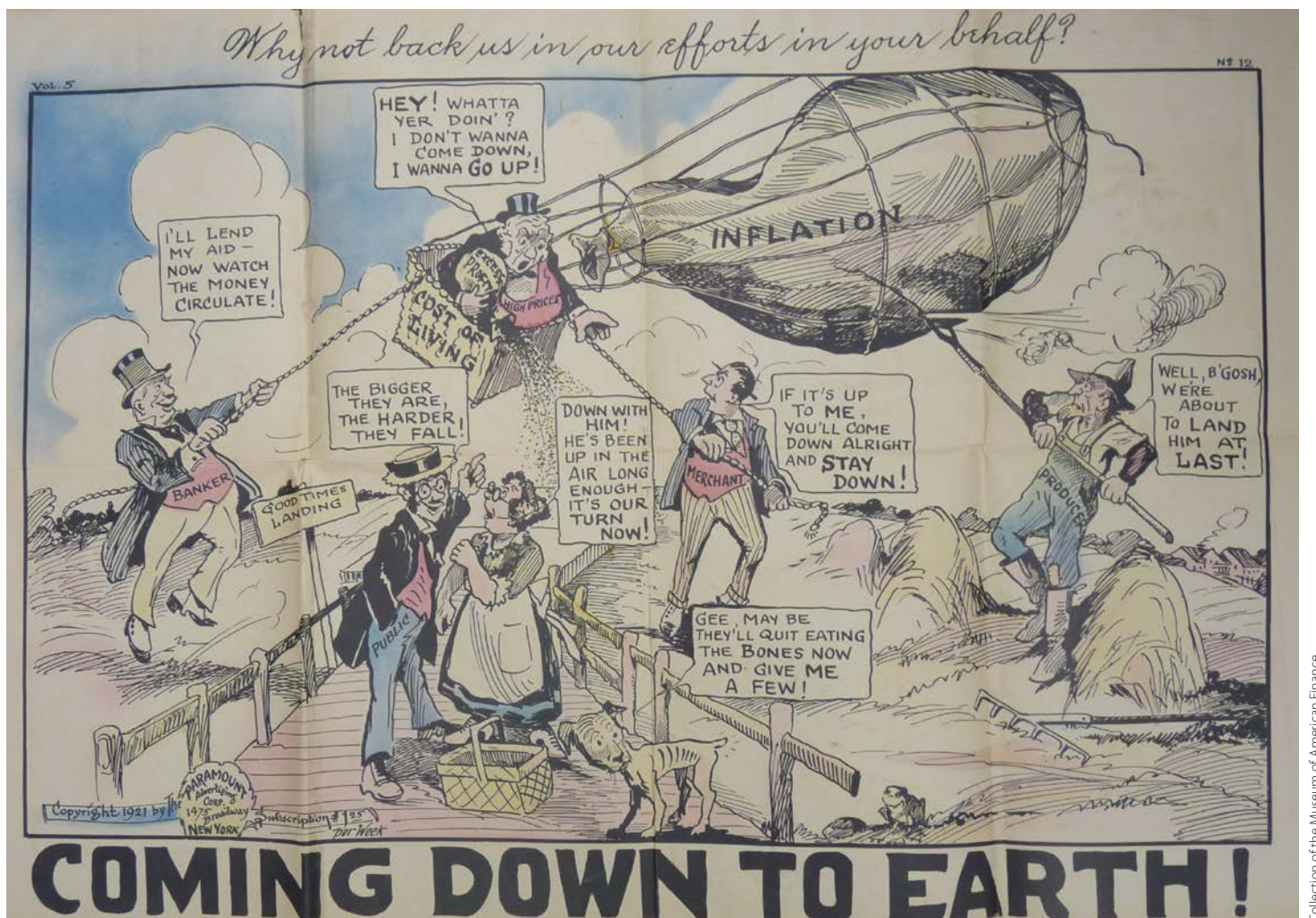
Between 1926 and 1929, the amount of money borrowed to buy stock in America, or “margin debt,” doubled. In May 2021, margin debt reached an all-time high of \$861.63 billion—more than double the margin debt of \$328 billion seen at the height of the dot-com bubble and the \$420 billion of margin debt seen at the housing bubble peak. The amount borrowed is growing by 40% with each passing year. Despite market levels rising along with it, that is a significant level of borrowed money supporting the market.

A survey of consumers conducted from March 30 to April 6, 2021, found that 80% of Gen Z and 60% of millennial investors borrowed money to invest.

The rag-tag renegades of Reddit retail investors exposed yet another risk of excessive leverage during the GameStop saga: inadequately capitalized intermediaries. When the proletariat was prohibited from buying more GameStop stock by their broker Robinhood, it was not because the app was colluding with Wall Street pros. It was because the regulators and clearinghouses were demanding \$3 billion in more capital—and quickly—to compensate for their increased exposure to GameStop’s price collapsing.

Robinhood is by far the largest online broker. At the start of the year, it was being downloaded more than twice as much as Fidelity, TD Ameritrade, E-Trade and Schwab combined. Yet, at the same time, Robinhood was scrambling to find billions of dollars to meet regulatory requirements to stay in business. Not only were individual investors highly leveraged, but the infrastructure was at risk because the largest online participant was also overleveraged. Subsequently, Robinhood recognized its need for more efficient access to capital by going public via an IPO in July 2021.

What can be done to keep leverage at bay? The primary tool available to regulators to control the buying of stocks with



Inflation cartoon titled "Coming Down to Earth," 1921.

borrowed money is called the initial margin requirement. The requirement sets a minimum for the amount of collateral a buyer must provide to get a loan to buy stock. The Federal Reserve is charged with controlling this requirement; it did so actively in the 1920s and also from 1929 to 1974.

In the 1920s, the Fed progressively raised the requirement from 10% to 50%. Between 1929 and 1974, it changed the initial margin requirement 23 times, from a low of 40% during the Great Depression to encourage people to buy stock, to a high of 100% during World War II, effectively prohibiting buying stock with borrowed money.

If Federal Reserve Chairman Jerome Powell were to raise the requirement tomorrow, this leg of the stool would break. But the requirement has not budged from the 50% level set in 1974, and the reluctance of the Fed to make any further adjustments has made its use the capital markets'

equivalent of the nuclear option. This tool is effectively off the table for now. Therefore, troubling signs of excess borrowing remain, leaving this leg of the stool cracked.

### 3. Interest Rates

A lax monetary policy accompanies financial bubbles, but it's not just absolute interest rate levels that matter—it's the direction in which those rates are moving. The Fed's primary means of setting interest rates is the federal funds rate, the interest rate at which banks provide overnight loans to each other. In the big picture of the markets, the federal funds rate is the captain of the team, the lead violin. All fixed income markets look to the federal funds rate before they move in a direction.

When the Federal Reserve was trying to arrest hyperinflation in the early 1980s, the federal funds rate peaked at nearly 20%,

its all-time high. Last March, during the worst days of the pandemic stock market, the Federal Reserve slashed the rate to its lowest level in history, where it remains today—0.25%.

In comparison, between 1927 and 1929 the Fed raised the discount rate (a much more draconian move than adjusting the federal funds rate) three times from 3.5% to 5.0%. Early in 2020, in response to the pandemic, the Fed lowered the discount rate from 2.25% to 0.25%, a huge stimulus signal for the markets. And that is where the discount rate remains today.

The Federal Reserve is taking more stimulative measures today than at any point in its nearly 110-year existence. Chairman Powell stated that low rates are here to stay for the foreseeable future, and "it will be measured in years" before the Fed considers raising interest rates.

But what about the long end of the



Throng at the steps of the subtreasury building (now Federal Hall) across the street from the New York Stock Exchange, October 1929.

yield curve, for bonds maturing over the span of 10 years or more that traditionally have not been controlled by the Fed? Historically, the difference between the federal funds rate and the long end of the yield curve has signaled either inflationary times or recessions coming.

In March 2020, the interest rate on a 30-year US Treasury bond bottomed at 1.27%. By March 2021, it had surpassed 2.4%. It currently stands at 2.09%. This peripatetic movement of the long end of the curve with a constant federal funds rate at the short end indicates the market is confused between inflation or deflation on the horizon. This market confusion is compounded by the Federal Reserve buying up government bonds through a process called quantitative easing (QE) to inject more money into the economy. Without the Fed purchasing billions of dollars in Treasury bonds each day, interest rates at the long

end of the yield curve would be higher.

If the Fed terminated QE, we could hear the resulting crack of this leg of the stool. The Fed has stated that it will begin to “taper” (i.e., reduce the level of QE purchases) as early as mid-November 2021. Until then, with the Fed intervening on the long end and controlling the short end of the yield curve, however, the true stability of this leg of the stool is unknown.

Importantly, these record-low interest rates also affect the equity evaluations calculated above, which had suggested that P/E ratios above their historic averages indicate we might be nearing a bubble burst. If one were to adjust for record-low interest rates using the earnings yield<sup>3</sup>—the inverse of the P/E ratio—one might discover that stock values are not as inflated as they initially appeared.

The difference is currently 3.89%. For perspective, that spread had narrowed to

zero at the peak of the housing bubble. This suggests that because of record-low interest rates, stock prices are not as inflated as they first appeared. Certainly, they are not as inflated, or in as much of a bubble as the bond market. There is a maxim on Wall Street among the pros: “Don’t fight the Fed.” It seems as true today as it ever was.

#### 4. Public Participation

There has never been a financial bubble without the public getting into the market. The general public is the last party to begin participating in a bubble, and inevitably the last to get out—a phenomenon (borrowing from accounting terminology) of LILO, “last in, last out.”

Today, easy-to-use trading apps like Robinhood with zero commissions lure retail investors to return to the stock market after exiting in droves after the

2008 crash. With that stage set, the pandemic hit. Many spending alternatives were removed by lockdowns at precisely the same time fiscal and monetary easing went on steroids.

The personal savings rate jumped from a historical average of 7.5% to nearly 34% in April 2020 as a result. Suddenly, US households were flush with cash.

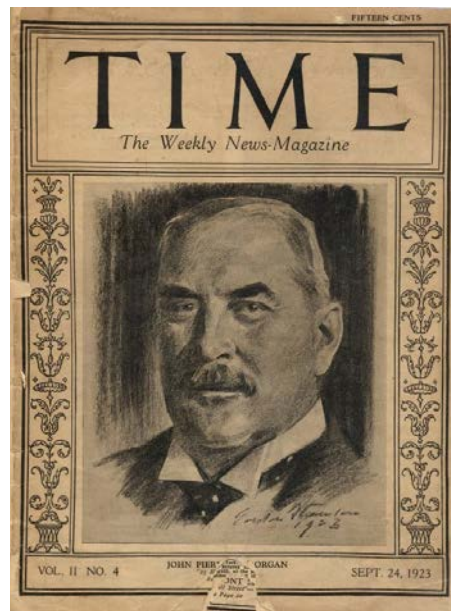
The psychology of “free money from the government,” combined with leisure spending taken off the table, and the ease of reentering the market using apps like Robinhood, all proved too much to resist for Americans. The amount of stock owned directly by individuals jumped from \$7.8 trillion after the housing bubble burst to over \$22 trillion in 2020. It nearly tripled.

This trend has only accelerated. From Q1 to Q2 of 2020, as the pandemic hit the United States at full strength, purchases of stock by retail investors increased by a factor of nine. Currently, retail purchasers are buying stock at a rate six times larger than before the pandemic, and Robinhood has nearly doubled its monthly users from 11.7 million to 21.3 million this year. In June, retail investors bought \$28 billion of stocks and ETFs, the most since 2014.

Retail investors who exited the market after being badly burned in the dot-com and housing bubbles are back like never before. Regrettably, in times like these, Wall Street does have a history of introducing new and poorly understood products that ultimately become profit vehicles for the sellers and traps for the individual investor.

In the 1920s, Wall Street innovation took the form of investment trusts, the highly leveraged predecessor of today’s mutual funds that were run by the banks and offered to unsophisticated investors. Today, the rise of SPACs (special purpose acquisition companies) bears an unsettling resemblance to the leveraged investment trusts of the 1920s. These “blank check” companies are sponsored and permitted to sell new stock through an IPO with no earnings history and no assets other than money given to them through the IPO. The rise of SPAC mania is a sign no doubt that retail investors are foregoing the time-tested rules of principled investing for simple gambling.

Public participation is by far the strongest leg of this stool. However, it cannot be ignored that public participation was at historical highs in 1929, 1987, 2000 and



Time magazine featuring a cover story on J.P. Morgan and the American economy, September 24, 1923.

Collection of the Museum of American Finance

2008 when those bubbles burst. Retail investors betting the farm on SPACs would be wise to remember: LILO.

When bubbles burst, they burst quickly, and with ugly consequences. When prices crashed in the Roaring Twenties, they did not return to their 1929 peak until the 1950s—more than 20 years later, through a Great Depression and another world war. These events scarred a whole generation of Americans, including the investing public.

Galbraith has given us a framework to contemplate the answer to a question that has saved people throughout history from the calamities of burst bubbles: When have I made enough? When is it time to get out?

To the frustration of economic forecasters—and the delight of those like Galbraith who make fun of them—there is no way of knowing for sure. The correct answer will also certainly differ from investor to investor, who each possess their own risk tolerance, investment time frame and personal goals.

As we end where we started, looking to history to help us plan for tomorrow, perhaps investors should heed the pithy warning of another legendary prophet of profit, Sir John Templeton, who cautioned, the four most dangerous words in investing are “this time it’s different.” 💰

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## Notes

1. A financial bubble is a period in which the market price of an asset exceeds the intrinsic value of the asset. In other words, the asset is overvalued. Eventually market prices reach unsustainable levels, and the bubble bursts.
2. The P/E ratio is commonly used to determine if a company’s stock price is overvalued. The ratio is calculated by dividing share price by earnings per share. For example, if a stock share sells for \$10, and it has earnings per share of \$1, its P/E ratio would be 10x. A high ratio could mean the stock price is overvalued, and vice versa.
3. The earnings yield is calculated by dividing a company’s earnings per share by the stock price. It determines the return on investment for buying stock today. The difference between a stock’s earnings yield and the yield on Treasury Inflation-Protected Securities (TIPS) paints a picture of the comparative attractiveness between the stock and fixed income markets.

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# Bridging the San Francisco Bay

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By Michael A. Martorelli

NO LESS AN AUTHORITY than *Popular Science* told its readers in May 1931 that San Francisco would soon have the “World’s Greatest Bridges.” Construction crews would be building two record-breaking spans over the San Francisco Bay. The Golden Gate Bridge would be the longest and tallest suspension bridge in the world and connect the city with Sausalito and Marin County to the north. The San Francisco-Oakland Bay Bridge would be the longest span of any kind, stretching more than seven miles from the city to Goat Island (soon to be renamed Yerba Buena Island), then continuing across to Oakland. Spending almost \$100 million to build two bridges in the same city at the same time would rank as one of the greatest feats of construction during the Great Depression. As the United

States considers how to improve its physical infrastructure of bridges, tunnels and highways, it seems an appropriate time to revisit the story of those iconic elements of the San Francisco skyline.

## Planning a Connection to the North

San Francisco rebuilt itself after the 1906 earthquake, survived an outbreak of the bubonic plague in 1908 and enjoyed a moment in the national spotlight while hosting the 1915 Panama-Pacific International Exposition. In the aftermath of that experience, political officials began seriously considering proposals for bridges from the city to the counties surrounding the bay. But their interest soon shifted from such local issues to the upcoming presidential election and the war in Europe.

After the signing of the Armistice in November 1918, public officials and citizens alike showed a renewed interest in building bridges across the bay. City Engineer Michael O’Shaughnessy and J. B. Strauss & Co.’s Joseph Strauss had worked together

to build the Fourth Street Bridge in an industrial section of the city in 1916. Therefore, Strauss was among the handful of engineers O’Shaughnessy approached in 1920 about building a bridge across the Golden Gate. He also asked the US Coast and Geodetic Survey to take soundings to examine the underwater contours of that strait. That work showed favorable rock ledges on both shorelines, so in 1921 Strauss proposed a combination cantilever and suspension bridge. Its 950-foot-high crisscross steel beam towers would rest on concrete, rock-faced piers; its cantilever framework would extend across 1,300 feet; and its suspended cables would stretch more than 4,000 feet from tower to tower. Strauss estimated the cost of construction at \$17.2 million.

Without a commitment from anyone, Strauss began promoting his bridge to audiences throughout the counties north of the Golden Gate. Not everyone was in love with his rather inelegant and unaesthetic design. However, having a design of any kind proved to be a sufficient

The Golden Gate Bridge, 2012.

inducement for the officials of San Francisco and five northern counties to convince the State of California in 1923 to pass an act permitting the formation of a Bridge and Highway District for the purpose of building a bridge over the Golden Gate. The growth of automobile ownership throughout the 1920s spurred further discussions. Since 1909, the Southern Pacific Transportation Company's specialized ferries had been carrying automobiles between the city and various points on the bay's shoreline. Long delays approaching the crossing points were common.

Advocates of a bridge across the Golden Gate would need to spend most of the period 1923 to 1933 overcoming obstacles from many quarters, including the War Department, environmentalists and taxpayer groups in some of the Bridge District's six counties, as well as railroad and ferry interests. By February 1930, officials had overcome most of the objections.

Chief Engineer Strauss had completed a reexamination of the previous engineering, geologic and traffic surveys and confirmed that the bridge was feasible. He had also agreed to modifications in his design as offered by consulting engineers then developing new techniques for erecting suspension bridges over rivers near Philadelphia, Detroit and New York. And he had provided an updated cost estimate of \$33 million, which now included the interest expense of bonds to be used to finance the project.

In approving the new design in August, the Bridge District's directors recommended that voters approve a \$35 million general obligation bond issue. Based on estimated traffic flows, they expected bridge tolls to cover the cost of annual operating expenses plus interest on the bonds. A bond issue that did not arouse major objections when first floated near the end of the boom year of 1927 seemed like an impractical idea in the depths of the Great Depression in the autumn of 1930. Nevertheless, in November voters approved the bond issue by a margin of more than three to one; the vote was closer to eight to one in Marin and Sonoma counties.

Unfortunately, poor economic conditions threatened to make that approval moot, and the original offering syndicate backed out of the deal. To further complicate matters, the Southern Pacific-Golden Gate Ferries Co. forced the Bridge District to meet yet one more court challenge. In



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Top—The Golden Gate Bridge under construction, 1934.  
Bottom—Pylon on the south shore of the Golden Gate Bridge during construction, 1934.

July 1932, the California State Supreme Court finally confirmed that the state did indeed have the right to establish the District and that the District did indeed have the authority to sell bonds to finance the bridge.

In August, the Reconstruction Finance Corporation (RFC) refused a District request to lend it \$35 million in accordance with the RFC charter to help finance self-liquidating projects owned and operated by public bodies. Fortunately, a new underwriting syndicate led by the Bank of America offered to purchase the first \$6

million tranche of a new bond offering; it marketed another \$9 million worth of bonds during the next 15 months; and between the beginning of 1934 and the end of 1937, that group of bond houses helped avert any major interruptions in construction by successfully marketing the remaining bonds in the \$35 million issue.

### Building the Golden Gate Bridge—Finally!

During the last two months of 1932, district officials approved the bids of eight



The San Francisco-Oakland Bay Bridge, 1980.

different contractors who projected an updated and Depression-affected cost of construction of just over \$23 million. The ground breaking occurred in January 1933. After the *Strum und Drang* over the bridge's design, approvals and financing, its construction was almost anti-climactic. The most significant disruption to the schedule occurred early. On the Marin County side of the strait, the pier supporting the tower on which the suspension cables would be hung could be built almost totally on land; it was completed by June. But on the southern side, the tower had to be built on a pier sitting 1,100 feet from land and in water 65 feet deep. High winds, heavy seas and a strong autumn storm disrupted the work and forced engineers to alter their construction plans. It took workers until January 1935 to complete that pier and get ready to build the San Francisco tower.

Most of the rest of the project proceeded without major disruptions. The anchorages were completed in June 1935. Building the iconic 750-foot towers (the largest steel units ever assembled) occupied most of 1934 and 1935. By the middle of that year, it was time to begin stringing the suspension cables that would support

the bridge's deck. Spinning two cables—each more than 7,000 feet long—in the harsh weather of the Golden Gate required several innovations in wire design and compression.

Workers began assembling prefabricated sections of the bridge deck in June 1936. Using a safety net under the deck saved 19 men who accidentally fell into it from perishing in a 220-foot plunge to the water. Ten of the 11 men who died during construction were victims of an accident when a section of scaffolding fell through that net. Chief Engineer Strauss insisted on using safety measures not always used on other construction projects, such as safety lines, hardhats, respirators and glare-free goggles, as well as hand and face creams to protect the men's skin. The deck was completed in November 1936. The first several months of 1937 saw the paving of the roadbed, the completion of the side spans, the addition of an innovative lighting system and the construction of approach roads on both sides of the bridge.

The longest suspension bridge in the world opened for traffic on May 27, 1937. Its cost included \$27.1 million for supplies and salaries; \$2.5 million for engineering and geologic studies, inspections and

administrative expenses; and \$4.1 million for interest expenses. The Bridge District recorded a surplus of \$1.3 million.

### Planning a Multi-Part Connection to the East

The first serious proposal for a bridge from San Francisco to Oakland came in 1914 from Charles Evan Fowler, an engineer from Seattle who had been involved in the design of San Francisco's steel-frame Mills building in 1889. He suggested the most appropriate option would be a structure combining several different elements:

- three linked 2,400-foot suspension bridges connecting the Telegraph Hill section of the city to Goat Island
- a 540-foot tunnel through Goat Island
- a 2,900-foot cantilever bridge from Goat Island to Oakland

Fowler believed the cost of that project would be about \$75 million and that it would take 10 years to complete. Political officials were interested, but they were not prepared to act on what seemed to be an impractical idea.

As noted earlier, after the conclusion of the Great War, political leaders showed

new interest in building bridges over the San Francisco Bay. In 1921, the War Department held public hearings on more than a dozen proposals for a bridge from San Francisco to Oakland. Officials made it clear they were not enthusiastic about a bridge that could impair commercial shipping or military activities. In 1927, the San Francisco Board of Supervisors organized the Ridgeway Commission to examine the potential location and design of a trans-bay bridge to the east. Its report not only established the feasibility of such a structure but suggested the most appropriate location and the most practical designs.

In 1929, President (and sometime Palo Alto resident) Herbert Hoover and California Governor Clement Young established an eponymous commission to explore how their governments could help move the project along. While the commission was meeting, the State of California created the California Toll Bridge Authority and adopted the proposed Bay Bridge as a state-owned and financed structure. At the same time, the Army and Navy each modified their objections to the potential structure's design and location. The commission's August 1930 report reviewed all previous examinations of engineering, geologic, political, military and financial issues. It analyzed the traffic flow, boring and foundation data, design options and potential costs of five alternative routes. It recommended one with an estimated cost of \$72 million; that route would start in the Rincon Hill neighborhood of San Francisco, connect to Goat Island and then continue to Oakland. In most aspects, the bridge was quite similar to the one suggested by the Ridgeway Commission.

According to the 1929 Toll Bridge Authority legislation, the state's Department of Public Works was empowered to issue revenue bonds to finance the bridge. But as was the case for the Golden Gate, poor economic conditions made it difficult to market the \$72 million bond issue deemed necessary to finance this multi-part and unusually long structure. In October 1932, and much to the chagrin of officials of the Golden Gate Bridge District, the RFC loaned the Bay Bridge Authority \$61 million of the requested \$72 million. (It would later provide another \$10 million for the interurban railway and trolley lines on the bridge.) President Hoover's influence proved crucial. So too

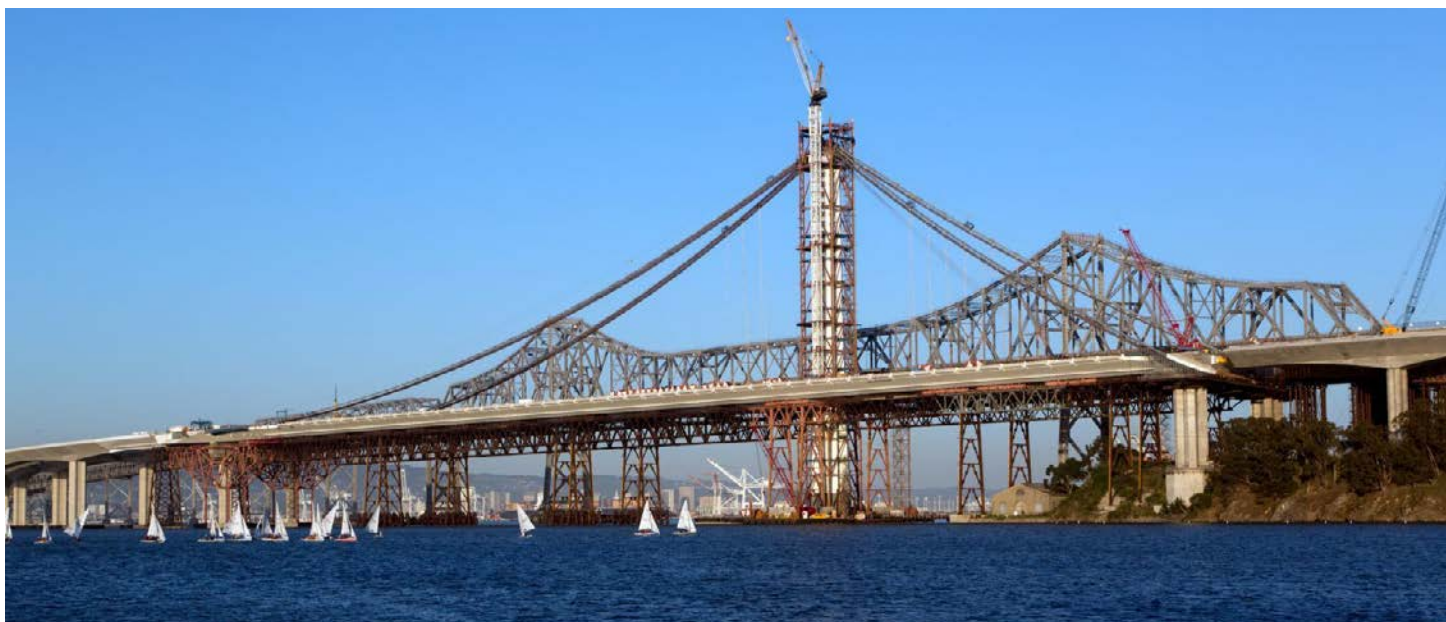


Top—Bird's eye view of the San Francisco-Oakland Bay Bridge, circa 1936.  
Bottom—The San Francisco-Oakland Bay Bridge under construction, 1934.

did the argument that the Bay Bridge would directly benefit the Oakland/Alameda population of 474,000, as compared to the Golden Gate directly benefitting Marin County's population of 42,000. RFC officials also deemed the Golden Gate's general obligation bonds (backed by the taxing power of the counties in the Bridge District) to be more marketable than the Bay Bridge's revenue bonds (backed only by bridge tolls). Thus, they directed their limited funds to the Bay Bridge.

### Building A Second Multi-Million Structure

The Bay Bridge's gestation period was only four years, less than half the Golden Gate's. Its construction period was also shorter—41 months compared to the Golden Gate's 52 months. Beginning in July 1933, more than 6,000 men worked simultaneously on its three separate parts. Each of those projects required engineers and construction crews to develop new building techniques:



The San Francisco-Oakland Bay Bridge, 2012.

- Erecting three connected 2,400-foot suspension bridges across the East Bay required building an artificial island in the middle of the bay to act as an anchorage for two of them. The bridge deck above the bay's shipping channel would have to be a record 227 feet high to allow for commercial and military traffic to pass under it.
- To accommodate the anticipated traffic flow, the Yerba Buena tunnel would have to be 76 feet wide, 58 feet high and 540 feet long, making it the largest such tunnel in the world.
- The bridge from Yerba Buena to Oakland would be the longest of its kind, requiring 22 piers and including six separate truss sections in addition to the two towers supporting the cantilever sections. One of its piers would have to be sunk more than 240 feet below the water level, setting a record for underwater construction. And its approaches would have to connect with several major highways built on that side of the bay during the 1920s.
- The entire bridge would have to include tracks for four separate interurban railway and trolley systems that were still thought to be important elements of the Bay Area's transportation network.

Wind and water conditions that plagued the Golden Gate Bridge's construction were not quite as bothersome to the workers building the Bay Bridge. But

the work was still hazardous. Twenty-four men died during construction, including at least one deep-sea diver who succumbed to a bad case of the bends. In March 1936, construction was held up for several hours when the final section of the cantilever bridge across the East Bay did not fit into place. The combination of warm sun on one side of the span and cold wind on the other had caused the steel to expand. Workers had to use powerful jacks to move part of the structure by 10 inches in order to accommodate the last piece of this steel jigsaw puzzle.

The cities of San Francisco and Oakland celebrated the opening of their new highway connection on November 12, 1936. It had been completed six months ahead of schedule and a cost of only \$53 million, thus yielding the Bridge Authority a substantial surplus.

### Finished, But Not Completed

In one sense these two projects were finished: construction was complete, traffic began to flow and the bridge districts began to collect tolls. Just as their organizers had predicted, both districts used those tolls to pay off their bonds (Golden Gate) or RFC loan (Bay Bridge). But those designers would likely have been disappointed that neither the Golden Gate Bridge District nor the California Toll Bridge Authority would ever be able to stop collecting tolls. Bridge authorities

have been using those funds to re-paint, re-configure, re-deck, re-light and retrofit these structures ever since they opened. In addition, taxpayers had to spend \$6.5 billion to replace the Bay Bridge's East Bay section after the damage caused by a 1989 earthquake. One suspects it will never be possible to say that these iconic structures have been "completed." 💰

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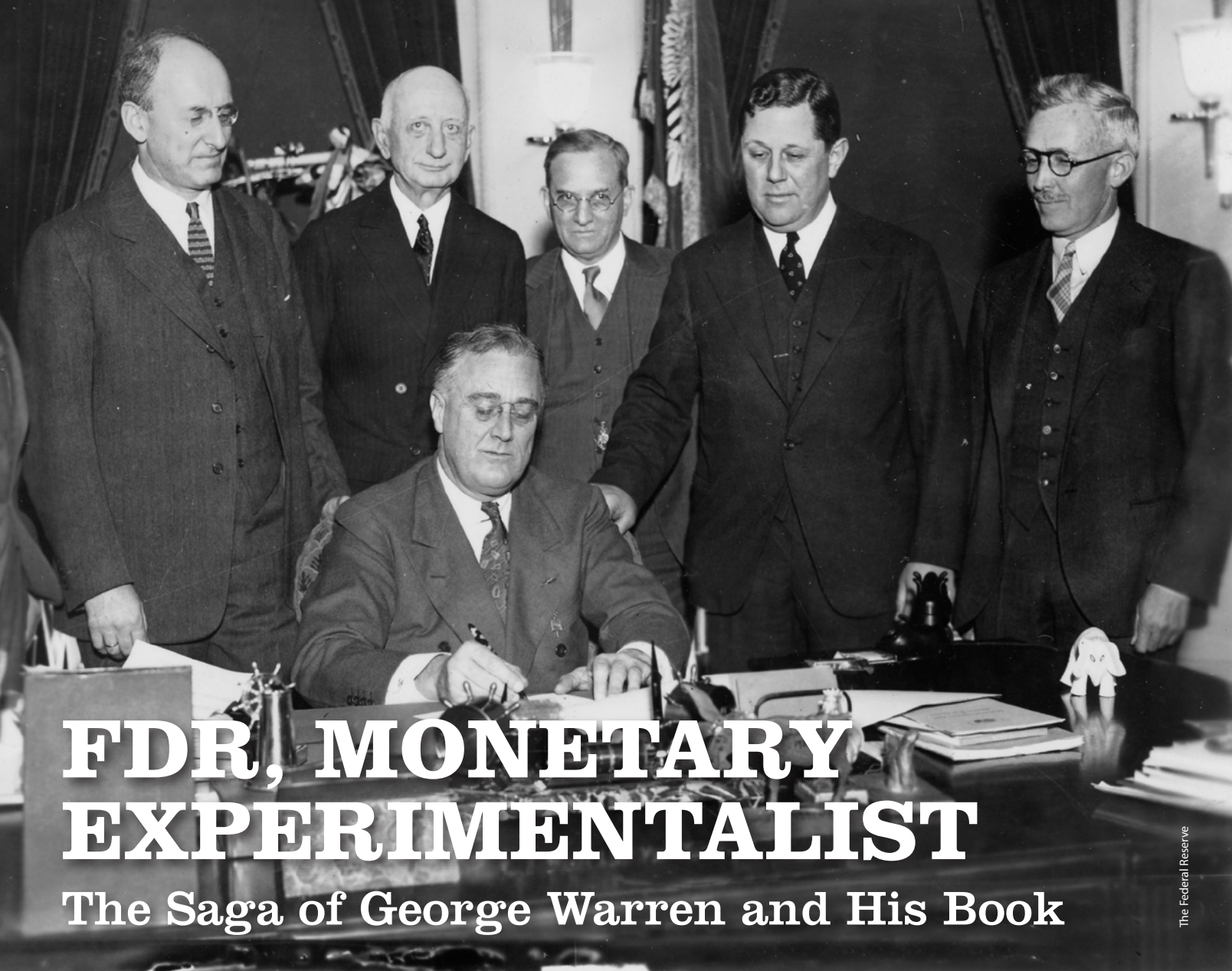
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The Federal Reserve

# FDR, MONETARY EXPERIMENTALIST

## The Saga of George Warren and His Book

By Daniel C. Munson

FINANCIAL HISTORIANS have nearly all reached their own conclusions about the Great Depression of the 1930s. The convulsions of those difficult years offer fodder enough for all. Some have focused blame on the laissez-faire spirit of the 1920s that led to lax regulation, others on the excessive margin trading in stocks, still others on what they regard as inadequate monetary policy in response to the market crash.

Such analyses of events, understood with the advantage of hindsight, can easily overlook the confusion that consumed

policy makers at the time. That angst and confusion—searing for those who lived through it and easily glossed over later on—should not be forgotten by historians.

The first year of the Franklin D. Roosevelt presidency provides an interesting example. Roosevelt met the economic problems of the early 1930s with his characteristic show of breezy self-confidence, but he occasionally confessed to, if not angst, at least some uncertainty. “It is common sense to take a method and try it,” he explained concerning the dismal state of the economy in a commencement address delivered during the 1932 campaign. “If it fails, admit it frankly and try another. But above all, try something.”

One such problem that President Roosevelt met with this improvisational approach was the problem of low

commodity prices, specifically low farm prices.

The collapse of farm prices, such as corn, wheat and hogs, in the early 1930s is a little remembered but critical fact of those early Depression years. The declines in the stock averages are well known and easily displayed on one’s computer, but the decline in farm prices—which had the pleasant upside of low grocery prices for the urban dwellers who write the history books—was in many ways more serious.

The years 1915–1920 had been prosperous for US farmers, a boom resulting from the drop in European farm output due to the Great War. From such peak levels, prices somewhat naturally declined in the 1920s: European farmers increased their output and prices gradually fell by roughly half from those peak levels over the course of

President Franklin D. Roosevelt signs the Gold Bill on January 30, 1934, with George Warren in the back center.

the decade. This became a slow-motion problem in parts of farm-belt America as the 1920s roared on in urban areas, and some farmers and their rural bankers found themselves sliding into financial difficulty.

Then the bottom fell out. The slow decline became a rout in the early 1930s. Prices collapsed by another 50+%. Corn had declined slowly from \$2/bushel in 1920 to \$1.20 in 1929, then fell precipitously to as low as 25 cents in 1933. Wholesale wheat went from \$2.40/bushel in 1920 to \$1 by the end of the decade, then dropped to 50 cents by 1932-1933. Farmers in 1932-1933 faced prices so low they simply could not cover their costs.

President Roosevelt knew the economy could not recover without an increase in crop prices. It was unclear how to bring about an increase, but the new President approached the problem with a willingness to “try something.”

Crop prices in the United States in 1933 were denominated in US dollars that were in turn exchangeable for gold at a fixed rate of \$20.67 per troy ounce. The economy and prices had their ups and downs under this “gold-based system,” but long-term price inflation was almost unknown. One US dollar bought roughly the same basket of goods in 1933 that it could purchase when the US Treasury began operations in 1790. Throughout that time—with the exception of a period during and just after the Civil War—the dollar’s value was officially pegged at roughly 1/20 of an ounce of gold.

This equivalency between the dollar and gold was seen by some as the problem at the root of those low farm prices. The thinking went that if the dollar continued to be defined by this fixed amount of gold and therefore remained highly valued, crop prices denominated in these highly valued, gold-backed dollars would remain stuck at low levels.

Most people of Roosevelt’s age, however, did not question this equivalency. The \$20.67 per troy ounce had been in place their entire lives, and for many it was almost a law of nature. Roosevelt’s concern with farm prices was central for him, however. In an April 1933 press conference concerning monetary matters, he announced that, “The whole problem before us is to raise commodity prices.” Roosevelt was determined to “try something,” and he was at least open to such ideas involving re-valuing gold.



Portrait of the Warren family, with George Warren in the front row center, 1905.

The newly empaneled Congress had passed the Emergency Banking Act on March 9, 1933, giving Roosevelt broad monetary powers. He used this new power to declare it illegal for American citizens to hold gold coins or bullion or gold certificates, or to export gold abroad. All such gold was to be returned to the government at the statutory rate of \$20.67 per troy ounce. The reasons behind the order were vague—the financially sophisticated probably guessed some form of inflation was in the works, and some even began investing in gold mining companies—but most Americans dutifully complied.

The worldwide economic slump was a central subject at the International Monetary and Economic Conference held in London in the early summer of 1933. The US dollar had gyrated wildly on foreign exchange markets during the spring with the uncertainty concerning the new Roosevelt administration’s monetary policy—the ban on gold exports had caused a sharp dollar decline—and many of the conferees sought a way to stabilize exchange rates. They had different and somewhat irreconcilable ideas, however. France, for example, was committed to a gold-backed currency, while Great Britain had recently abandoned the gold standard.

President Roosevelt was kept apprised of events, but he did not help the search for consensus. Shortly after the conference began, he cabled from a military cruiser that exchange rate stabilization was “a purely artificial and temporary expedient... [a] specious fallacy.” The President’s cable went over like a lead balloon, killing any hopes for a stabilization plan to emerge.

Exchange rate stabilization was perhaps simply an insufficiently pointed cure for what Roosevelt saw as America’s real problem: low farm prices. The President was casting about for ideas as to how to increase crop prices and was perhaps impatient with efforts that were not aimed at doing just that.

Enter George F. Warren, agricultural economist at Cornell University and co-author (along with statistician Frank Pearson) of a new book with the right title at the right time. *Prices* appeared late in 1931, and in its pages Professor Warren released a flurry of somewhat disjointed charts and graphs attempting to explain farm and other commodity prices through the ages. Of interest to some in President Roosevelt’s inner circle was Warren’s conclusion that, “Unless the price of gold is raised, the process of bankruptcy and deflation has been only temporarily arrested.”

This was intriguing. Warren's views were unorthodox, but his data were compendious, and nobody really doubted his sincerity. If one followed his argument, all that was required to get US farm prices up was an increase in the US dollar price of gold.

The President knew Warren from his days as New York governor, when Warren advised him on agricultural matters. Roosevelt and his aides watched farm prices closely through the spring and summer and early fall of 1933 and noticed that they did seem to vary somewhat with the trading price of gold. Roosevelt conferred with Warren, to the consternation of the few establishment bankers in the President's inner circle. By mid-October things had come to such a pass that Roosevelt decided to give Warren's ideas a try.

The public's fascination with the new Roosevelt administration and its new ideas was such that Warren attained minor-celebrity status. He was not an official member of the Roosevelt administration, yet he appeared in a full portrait on the cover of *Time* magazine, his calculating pens prominently displayed in the front breast pocket of his suitcoat.

Professor Warren saw his calling as scientific in nature. He wrote in *Prices* that "the ability to forecast results of a given force is one of the important tests to determine whether or not it is science." He drove home the point by adding that the depression of the early 1930s "is not an act of God for the purification of men's souls."

Roosevelt met with Warren to discuss Warren's ideas. Little is known, however, of precisely what Warren advised. "Since he has been in Washington," *Time* magazine wrote of the mysterious Warren, "he has spoken no word to the Press, written no articles, refused to express his opinions even by letter." The best account available is the diary of Henry Morgenthau, Roosevelt's friend and neighbor and then governor of the Farm Credit Administration, but Morgenthau does not go into detail concerning the specific monetary advice offered to the President. Subsequent events have led some to conclude that Warren counseled that an increase in gold prices, no matter how it was brought about, would cause an increase in farm and commodity prices.

A close reading of *Prices* finds only partial support for this. Warren's book does not suggest that an increase in gold prices—in and of itself—would increase



Henry Morgenthau, 1937. Morgenthau's diary reveals the best account of President Roosevelt's 1933 meeting with George Warren, though he does not go into detail concerning the specific monetary advice offered to the President.

Library of Congress

commodity prices. The passage mentioned earlier regarding raising the price of gold is lifted from the last section of the last chapter of *Prices*—a section entitled "Short-Term Price Outlook"—and is mentioned only after other options are discussed, one of which was legal devaluation of the currency in terms of gold.

Warren's scientific analysis yielded one conclusion concerning which he was adamant: inflation is to be preferred to deflation, which he called an "infinitely worse disease." He wrote favorably in *Prices* of the inflationary policies adopted by France, Belgium and Italy in the early 1920s that allowed those countries to avoid the deflationary depression of 1921 that caused havoc in the United States, and of the way those countries revalued their currencies in the mid-1920s in terms of gold to account for those earlier inflationary policies. Warren even found something to like in Weimar Germany's hyper-inflation of the early 1920s, writing that although the hyper-inflation that culminated in a trillion-to-one revaluation of the German mark in 1923 "was extremely serious for the country...the serious effects of deflation were avoided."

Regardless of the specifics, Warren's attitude was perfectly attuned to President Roosevelt's goals, and Warren's influence over policy responded accordingly. "During the second half of 1933," financial historian Sebastian Edwards concluded, "George F. Warren was the most influential economist in the world."

The Roosevelt administration commenced experimentation with what they took to be Warren's scientific teachings. For six weeks during the late fall of 1933—with the official gold exchange rate of the US dollar still fixed at \$20.67/troy ounce, but with the trading price north of \$30—Roosevelt and a group of his inner circle of advisors met each morning to determine how much to increase the gold price in commodity trading that day, using US government money to do so: 10 cents an ounce? 20 cents? Morgenthau recorded that the decision was made one day to increase the gold price by 21 cents per ounce. When asked why, the President replied airily that, "It's a lucky number, because it's three times seven."

The experiment was destined to fail: The US government could increase the gold price, but in doing so agricultural prices barely budged.

Chroniclers of those difficult and uncertain times have not been kind to Warren. One critic of Roosevelt's New Deal policies summarized Warren's views as suggesting that "a historical relationship existed between the price of gold and the price of farm commodities—they rose and fell together." *The New Yorker* magazine's financial writer wrote in the 1960s that Warren was "a monetary nut" who postulated that, "The price of commodities... went up and down automatically with the price of gold in terms of paper currency, and...adduced a bewildering array of historical statistics and charts going back beyond the California and Australia gold rushes of the middle 19th century to the Spanish Conquest, and even further. Therefore...all one had to do to control the price of commodities was to control the price of gold."

The Roosevelt administration's experiment, perhaps laudable in spirit, did not reflect a truly accurate reading of *Prices*. The early pages do present graphs showing that "gold" follows commodity prices very closely over hundreds of years of English history, but the "gold" in these graphs is not the gold price, but rather the prices of

these commodities expressed in gold coin. England was on the gold standard during most of these years, so these lines should be expected to follow one another, and the lines diverged only during the Napoleonic and Great War periods, when England discontinued gold convertibility.

Gold and commodities can certainly be observed going up and down together because of shortages of both, but this is rare. More often their concerted movement is because the currency in which they are priced is either declining or increasing in value. Prices expressed in that currency then naturally move together. Simply put, gold is just another commodity being influenced by a third variable, namely the market assessment of the value of the currency in which gold and other commodities are being priced.

A thorough reading of *Prices* tells a different story. The charts and graphs that show the paper currency price of gold moving up in tandem with wholesale prices do so in countries like France and Italy as they devalued their currencies in terms of gold in the 1920s. In gold standard countries like Britain and the United States, Warren opined that wholesale prices rose up and down not with the price of gold but inversely with the value of gold, a value he measured by the size of a basket of commodities that could be purchased with a certain amount of gold.

Warren was perhaps too sanguine about the adverse effects of inflation, but he was quite accurate as to its causes. Inflation was caused by “large issues of paper money, reducing the weight of metal in the monetary unit, reduced demand for the monetary metal or large additions in supplies of metal.” Nowhere does he suggest a rise in the price of the metal—a step consistent with increased, not reduced, demand—would inflate other prices.

Warren’s verbiage is a little strange to us now. The first two of these causes of inflation we can understand well enough, and the fourth refers to the inflation caused by big gold mine discoveries that add to the supply of gold and, therefore, the supply of money.

The third of these causes, the one having to do with reduced demand for a monetary metal such as gold, could be confusing. Warren postulated that as demand for gold falls, the value of gold falls, and as it does commodity prices increase. Such a drop in demand, Warren asserted,



George Warren was not an official member of the Roosevelt administration, yet he was influential enough that he appeared on the cover of *Time* magazine, November 27, 1933.

occurred in 1850–1856 and again in 1897–1906 as gold flowed into the country, first from the mines in California and later from Alaska and South Africa, but these drops in demand might today be described as increases in the supply of gold rather than a drop in demand.

Warren found a similar drop in gold “demand” in the United States in 1914–1920, as monetary gold flowed from Europe to the United States when war broke out. In each case, “gold demand” declined, in Warren’s parlance, with increased supply. To associate such events with “reduced demand for the monetary metal” is a clumsy way of expressing things. However, with each such drop in “demand for the monetary metal,” prices in the United States did indeed surge.

These fine points were lost in the excitement surrounding Warren’s possible connection between the price of gold and farm prices.

The gold buying program failed to raise farm prices during those six weeks in late 1933, but this did not cause Warren to be expelled from Roosevelt’s inner circle, perhaps because he had warned that the experiment of intervening in the gold market might not work. Such bidding up of the price of gold in daily trading did not increase farm prices, but an accurate reading of *Prices* did not really suggest it would.

Warren was much more optimistic that “reducing the weight of metal in the

monetary unit” would do the trick, and the Roosevelt administration did just that in early 1934. The exchange value of the dollar into gold was changed from \$20.67 to \$35 per troy ounce, a 59% reduction in value of the dollars in the pockets of Americans. This is what had been done in France, Belgium and Italy a few years earlier—steps that received the blessing of Warren in *Prices*. President Roosevelt took Warren’s advice, in the process ignoring 140 years of US monetary history, and simply changed the value of the dollar in terms of gold.

The Roosevelt dollar devaluation, a step fully consonant with Warren’s views expressed in *Prices*, did finally halt the deflationary slide. Prices stopped declining and began to increase: corn nearly doubled in 1934, and wheat rose almost 50%.

Consumer prices had declined by 5.2% in 1933, but following devaluation they reversed course, increasing by 3.5% in 1934 and by another 2.6% in 1935. These price-level increases were not perhaps all as rapid as Warren had predicted, but the President wanted to stem the deflationary tide. The advice George Warren offered in *Prices* had finally done just that. \$

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Courtesy of Edwin Schloss

# Walter J. Schloss

## *A Superinvestor of Graham-and-Doddsville*

By James Russell Kelly

ON MAY 17, 1984, Warren Buffett gave a speech at a Columbia Business School seminar, marking the 50th anniversary of the publication of Benjamin Graham and David Dodd's *Security Analysis*. In his speech, Buffett presented the extraordinary performance records of seven superinvestors who were disciples of Graham and Dodd. He said, "These investors simply focus on two variables: price and value."

Buffett's first example was Walter Schloss. He wrote, "Walter never went to

college but took a course from Ben Graham at night at the New York Institute of Finance. Walter left Graham-Newman in 1955 and achieved the record shown here for 28 years (compound annual return 17.2% vs. 10% for the S&P 500 Index)."

### Personal History

Walter J. Schloss (1916–2012) grew up on the Upper West Side of Manhattan with his parents, Evelyn and Jerome, and his sister, Marjorie. During the Depression years of the 1930s, the whole family, including his grandmother, Pauline Gomprecht, lived in a three-bedroom apartment at 817 West End Avenue, where horse-drawn wagons still delivered milk and the ice truck came by weekly.

He was also a proud New Yorker and an inveterate Yankees fan with a comprehensive knowledge of the history of the franchise. His interests included bird watching in Central Park, stamp collecting and playing bridge. He also enjoyed playing tennis and reading espionage novels.

After graduating in 1934 from the Franklin School, now known as the Dwight School, he went directly to work since the family did not have the financial resources during the Depression years to send him to college. He got a job working as a runner (messenger) at Carl M. Loeb & Co. in 1935 with the help of Armand Erpf, a partner, who was a friend of his mother. After a few months, Walter asked him how he could get into the "statistical department." Erpf advised reading a new

Rare unpublished photo from the Buffett Group meeting with Benjamin Graham in La Jolla, CA, in June 1968. Warren Buffett, Charles Munger and Benjamin Graham are on the far left, and Walter Schloss is the fifth from the right in the rear.



Walter Schloss (in suspenders in rear) and three Tweedy, Browne partners, 1962.

book called *Security Analysis* that had just been published by a man named Ben Graham: “Read the book and when you know everything in it, you won’t have to read anything else.”

Schloss took his advice. He also enrolled in the New York Stock Exchange Institute (New York Institute of Finance), where he took courses in accounting and finance, qualifying him to enroll in Graham’s course in security analysis. Schloss recalled that “it was a great experience and I remember taking two different classes with him. The firm paid for the classes, which I think was \$10 or \$20 a semester.” This was where Schloss developed his personal relationship with Graham.

On December 12, 1941, immediately after Pearl Harbor, Schloss enlisted in the US Army and served as a code clerk in the 833rd Signal Company. He was then transferred to the Persian Gulf Command in Iran, which constructed Studebaker trucks in an Iranian truck factory. These trucks were loaded up with supplies and driven north to the border, where they were turned over to the Russian army for use in the siege of Stalingrad. After a year and a half, he returned to the United

States to attend Officer Candidate School and was commissioned a 2nd Lieutenant. He served the balance of his military service in Washington, DC at the Pentagon.

In 1946, when he completed his World War II service, he married Louise Filer, also from New York. They had two children, Edwin and Stephanie.

### Graham-Newman Corporation (1946–1955)

During the war years, he stayed in touch with Graham by postcard and letter. Graham wrote back while Schloss was still in the service and offered him a job as a security analyst in his investment firm, the Graham-Newman Corporation. Schloss joined the company on January 2, 1946 and remained until 1955, when Graham decided to retire to California.

When Schloss joined Graham-Newman, the company was already 10 years old and had established a very good track record. Its total assets on January 31, 1946 were \$1.4 million consisting of \$1.1 million in 37 stocks and the balance in arbitrage strategies. His first job was to prepare the annual report for that year and then

to find stocks which were selling below net working capital. Graham’s mantra was to buy stocks like groceries, not like perfumes. Schloss recalls that “Ben was a great believer in buying a diversified group of securities, so that he limited his risk. He was badly hurt by the Depression, and he didn’t want to do that again.”

A good example of Graham’s conservative investment style was his purchase of 50% of GEICO for \$712,000 in 1948. Schloss remembers Graham saying, “Walter, if this purchase doesn’t work out, we can always liquidate it and get our money back.” He recalls that Graham “had no conception of the growth potential of this thing. He was just buying an insurance company cheap.”

Graham-Newman was the incubator for several of the superinvestors of Graham-and-Doddsville. In addition to Walter Schloss, there was Tom Knapp, who went on to co-found Tweedy, Browne Partners, and, of course, Warren Buffett, who founded the Buffett Partnership and bought control of Berkshire Hathaway. They all worked there from 1954 to 1956. Buffett recalls, “I offered to go to work at Graham-Newman for nothing after I took Ben Graham’s class (at Columbia Business School), but he turned me down as overvalued. He took this value stuff very seriously! After much pestering, he finally hired me.”

When Buffett joined Graham-Newman as an analyst in 1951, the work dynamic of the company changed as the other employees, including Schloss, recognized his genius. Schloss was 14 years older than Buffett with a lot more seniority at the company, but he did not react defensively. In fact, he reached out and became an informal mentor to him. Thus began a life-long friendship. They both enjoyed playing bridge—Schloss even joined some games with Buffett and Bill Gates in later years.

The other superinvestors were Bill Ruane, who founded the Sequoia Fund; Charlie Munger, Buffett’s long-time partner at Berkshire Hathaway; Rick Guerin of Pacific Partners; and Stan Perlmeter of Perlmeter Investments. Buffett maintained friendships with his fellow superinvestors by arranging meetings every two years, including a famous pilgrimage to visit Graham in La Jolla, CA in 1968.



The Buffett Group, 1995. Left to right: Warren Buffett, Tom Knapp, Charles Munger, Roy Tolles, Sandy Gottesman, Bill Scott, Marshall Weinberg, Walter Schloss, Ed Anderson and Bill Ruane.

In 1955, Graham decided to retire and move to Los Angeles. Schloss remarked, "I think he was kind of bored. I said, 'If he's going to retire, I might as well go into business for myself.' So, I got myself 19 partners and they each put up \$5,000. One guy put up \$10,000. The people had confidence in me, so we started. And really, it kind of built up from there." His wife, Louise, was very supportive of his decision, which was fraught with uncertainty.

#### Walter J. Schloss Associates (1955–2001)

"I don't like to lose money," Schloss often said in published articles and recorded speeches. This conservatism and frugality reflected both his personality and his family's financial experience before and during the Depression.

One way he minimized expenses was by using a small working space at Tweedy, Browne Company, a dealer specializing in closely held and inactively traded securities. Tweedy was Graham's lead brokerage company in executing orders for Graham-Newman. To facilitate trading, Tweedy's office was located on the same floor as Graham-Newman at 52 Wall Street. They moved to 67 Wall Street and 52 Vanderbilt Avenue in later years.

Schloss arrived at work each day in a suit with suspenders and a brightly colored tie, but he immediately removed his coat and replaced it with a blue cotton working jacket like those worn by the floor traders on the New York Stock Exchange. He was very high energy and could be impatient, running from his desk to the trading room to place orders to buy stocks. He recalled, "When Howard Browne let me have a

desk in his office, he never thought I'd still be there 40 years later." In 1993, his office expense was only \$11,000 and fixed assets were carried at only \$2,605, as compared to a net income of the fund of \$19 million.

Buffett commented on Schloss's conservative style in his lecture, "The Superinvestors of Graham-and-Doddsville": "Walter has diversified enormously, owning well over 100 stocks. He knows how to identify securities that sell at considerably less than their value to a private owner. *And that's all he does.* He simply says, if a business is worth a dollar and I can buy it for 40 cents, something good may happen to me. And he does it over and over again."

In 1994, Schloss outlined 16 factors needed to make money in the stock market on a one-page memo typed on his old-fashioned manual typewriter. Among the most salient were:

- Price is the most important factor to use in relation to value.
- Use book value as a starting point to try and establish the value of the enterprise. Be sure that debt does not equal 100% of the equity.
- Have patience. Stocks don't go up immediately.
- Have the courage of your convictions once you have made a decision.
- When buying a stock, I find it helpful to buy near the low of the past few years.
- Try not to let emotions affect your judgment. Fear and greed are probably the worst emotions to have in connection with the purchase and sale of stocks.

Note his reliance on the balance sheet, especially book value and the relationship between market price and book value. In fact, the price/book ratio was the primary metric he used in screening for investment opportunities. In a *Forbes* interview, Schloss was asked why he focused on book value. He responded, "I really have nothing against earnings, except that, in the first place, earnings have a way of changing. Second, your earnings projections may be right, but people's idea of the multiple has changed. So, I find it more comfortable and satisfying to look at book value." It would be problematic to apply a simple price/book ratio in today's market, given the dominance of intangible assets in many companies' asset valuation.

### Edwin Schloss Joins the Partnership (1973–2002)

In 1973, Schloss's son Edwin joined the partnership, and the name was changed to Walter & Edwin Schloss Associates. Edwin received a Bachelor of Fine Arts degree in playwriting from the North Carolina School of the Arts. After graduation he studied security analysis at the New York Institute of Finance. Together, Walter and Edwin very successfully co-managed the fund until its liquidation in 2002.

Edwin has had a lifelong passion for the performing arts. He worked on Wall Street during the day and attended Broadway shows at night, often passing performance notes to the lead producer of the

shows. Eventually, he became a voting member of the Tony Awards and regularly attended over 40 productions each season. He is an accomplished producer and was co-producer of *Kiss Me Kate*, *Sweet Charity*, *Grey Gardens*, *Wonderful Town* and *La Cage aux Folles*. He won a Tony for the revival of *La Cage aux Folles* in 2010.

### Performance of the Fund (1955–2000)

For the 45-year period ending on December 31, 2000, the compound annual rate of return for limited partners was 15.7%, compared to 11.2% for the S&P Industrial Average. The fund had only seven down years in 45 years, compared with 13 down years for the S&P Industrial Average. The maximum drawdown was only -12.8% in 1990. It grew in size from \$100,000 to \$130 million, even though it paid out relatively large distributions of realized gains each year. The partners of the fund were ordinary individual investors who needed the cash flow to finance their living expenses. Over these 45 years, the average holding period was three to five years. The portfolio was highly diversified, including everything from a few large-cap "blue chips" to a multitude of obscure small caps. Many of the companies no longer exist today.

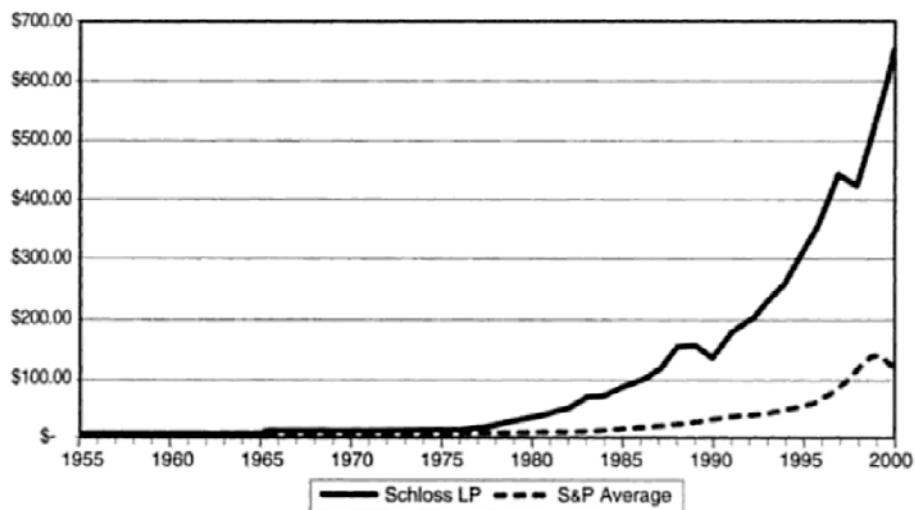
Walter and Edwin worked together closely in their tiny closet-sized office at

Tweedy, Browne. They relied on basic company financial reports and Value Line. Edwin recalls that they focused on companies that were lower rated in timeliness in the Value Line rankings, which were being ignored by investors. "In the early days, it was like shooting fish in a barrel. We initially found stocks selling below net working capital, then at 50%, 75% and 100% of book value as the market traded up over time."

Buffett commented that "they never came within a mile of inside information. Indeed, they used outside information only sparingly, generally selecting securities by certain simple statistical methods Walter learned while working for Ben Graham. When Walter and Edwin were asked in 1989 by *Outstanding Investors Digest*, 'How do you summarize your approach?' Edwin replied, 'We try to buy stocks cheap.' So much for Modern Portfolio Theory, technical analysis, macroeconomic thoughts and complex algorithms."

Schloss used an unusual egalitarian fee structure in his partnership. "I wanted to be in the same position as my partners. If they didn't make money, I didn't make money. If they made money, I wanted to be part of it. So, I got 25% of the realized profits, but that's it. If the market went down, we would have to make up the loss until my partners were whole."

Value of \$1.00 Invested in the Schloss partnership versus the S&P Industrial Index, 1956–2000





Courtesy of Edwin Schloss

Edwin and Walter Schloss.

### Going out on Top

Shortly after the peak of the dot-com bubble in 2000, Walter Schloss recalled, “When Edwin said to me in 2001 that he couldn’t find any cheap stocks—and that was a great call—it was a great excuse for us to quit. I have a list of stocks that could be on our buy list and I find that invariably when it gets down to less than five stocks the market’s too high and when it gets down to two or three it’s a danger signal.” They liquidated the fund over the next two years, realizing additional gains of 11.6% and 5.7% during the bear market.

### NYSSA Honors Walter Schloss (2006)

In 2006, on the occasion of Schloss’s 90th birthday, the Value Investing Committee of the New York Society of Security Analysts

(now known as the CFA Society NY) paid homage to him with a dinner at the Harvard Club. More than 100 of his friends and partners attended. Carol Loomis, editor-at-large at *Fortune*, moderated the discussion.

Some of his longtime friends and business associates gave tributes. “Walter’s goal is the right one for a value investor: go your own way,” stated Paul J. Isaac, Walter’s nephew. “Don’t chase or envy other investors... Enjoy life while it’s occurring. Value invest to enrich your life, and don’t subordinate your life to your portfolio... Having held to [these principles] is the reason Walter may not be the richest man in the illustrious professional circles in which he travels, but by any objective analysis, he’s always among the most successful.”

David Gottesman, senior managing director of First Manhattan Co., noted,

“One of the qualities that has made Walter a very successful man is his optimism, and if you buy deep value and combine that with optimism, I think you have a winning combination.”

### Recollections

Buffett affectionately called Schloss “Big Walter.” He described him as “one of the good guys of Wall Street, my long-time friend... [who] managed a remarkably successful investment partnership, from which he took not a dime unless his partners made money.” Buffett notes admiringly that “Walter did not go to business school, or for that matter, college. His office contained one file cabinet in 1956: the number mushroomed to four by 2002. Walter worked without a secretary, clerk or bookkeeper, his only associate being his son, Edwin.”

Bob Wyckoff of Tweedy, Browne Company remembers Walter Schloss as “a wonderful, kind and thoughtful friend and colleague. He shared office space with us for what had to be well over 50 years. Edwin has continued to share space with us since his passing...they were both treasured members of the Tweedy, Browne family and adored by all at the firm.” Wyckoff goes on to remember Walter’s striking generosity, “high energy and his complete independence when it came to making decisions about stocks. He really didn’t seem to care what stocks other value investors were buying, even his old friend Warren. He had his own unique way of doing things—seems to be a theme with highly successful investors.”

Will Browne of Tweedy, Browne considers Walter Schloss to be “an extraordinary practitioner of the concept of value investing and his decades-long record is irrefutable proof. His approach was tilted toward asset type business, but that was most likely a function of the period in which Walter was most active. I think he understood intuitively the ideas that were the basis of behavioral finance and how they could play havoc with good judgment and that perhaps fortified his ability to lean against the wind.”

John Spears of Tweedy, Browne remembers Walter’s sense of humor. “If one of his stocks was going down, he would joke that ‘I can’t take the pressure.’ He marched to his own drummer. He was also very frugal, living simply, below his means. He always took the subway to work. He liked to lean against the wind, by buying more and more shares in a company as the stock price declined.” Two examples were Hudson Pulp & Paper and Mercantile Stores. Each resulted in large gains for the fund.

Above all, Will Browne recalls Walter’s “integrity as a person and a fiduciary before that was commonly spoken about. I will always remember my father’s [Howard Browne, co-founder of Tweedy, Browne] admonition on his retirement, ‘if you ever get in an argument with Walter, you are wrong; there is no finer person in the business.’ A life well lived and worth emulating.”

In retirement, Walter continued to invest for his family, as well as serve on the Board of Directors of Freedom House, which monitors democracies around the globe. His wife, Louise, died in 2000. A year later, he married Ann Pearson, who

he met on a retirement tour to France. They traveled together extensively around the world until Walter’s passing in 2012.

Walter Schloss passed away on February 19, 2012, at the age of 95, from leukemia. His personal and professional values have been carried on by his son and partner, Edwin W. Schloss.

### Observations by Edwin Schloss

In a recent interview, Edwin recalled that Walter was similar to Graham in that both were negatively impacted in their youth by financial losses in their families. This made them both very conservative investors. He was also similar to Buffett in his overwhelming bullishness on America.

Walter was a contrarian who bought early in a business cycle. “He often said that their portfolio resembles a department store which buys an inventory of winter coats in the spring for sale in the fall.”

Edwin also commented that the market environment has changed substantially since he and Walter closed the partnership in 2002. Some companies with seemingly attractive price/book or price/earnings ratios may be “value traps.” It all depends on the dynamics of each industry, some of which, like retail, are being disrupted by advances in technology.

Nevertheless, he noted that the core principles of value investing are alive and well. As Buffett stated in his “Superinvestors” lecture, “[These] investors simply focus on two variables: price and value.”

Through 2002, when they completed the liquidation of the fund, Walter & Edwin Schloss Associates earned a 20.5% annual gross return before profit sharing fees for 47 years, versus 22.2% for 37 years at Berkshire Hathaway.

As they neared the end of their partnership, Walter reminisced about their long-term performance record noting that “we would have done better if we just had bought Berkshire Hathaway stock and held on.” Edwin reluctantly agreed but noted that “we would not have had so much fun!” \$

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# Creators of CHARACTER

Entrepreneurs Flourish in the  
Diverse Theater-Costume Business



By Gregory DL Morris, Triffin I. Morris  
and Rachel E. Pollock

In an era when a few major corporations dominate many sectors of the economy, it is refreshing that in at least one specialized segment of light manufacture, artisans running small shops are succeeding where large, integrated companies have faltered. It is even more heartening that among those entrepreneurs are mostly women, immigrants, gay people and increasingly people of color.

Broadway, by itself, is big business. In the 2018–2019 season, the Broadway League, the association of the largest theaters, grossed \$1.83 billion from attendance of 14.77 million. That was an increase of almost 20% from the previous season gross. The league calculates that its productions contribute \$14.7 billion to the economy of New York City on top of ticket sales, and that they support almost 100,000 jobs.

Out of those just a few hundred make the costumes. Stage clothes are *haute couture* that works for a living: eight to 10 shows a week for it is hoped several years. Producers fund the show and hire a director. Together they hire the lead creative team, including the costume designer. That person draws sketches and selects fabric—and wins the Tony Award.

But “no actor goes on stage wearing a sketch,” noted designer Jane Greenwood, who has a couple Tonys of her own. The costume maker, or draper, takes the sketch and the actor’s measurements and makes a pattern for the garment. The draper then leads the team that makes and fits the finished costume. Broadly speaking, the designer is like the architect, and the draper is the engineer.

Stage clothes became a business in 1919 when the six-year-old Actors’ Equity Association went on strike. One major demand was that producers would have to provide costumes; before that actors were responsible for providing their own stage clothes however they could—make, borrow or buy.

Many productions were vehicles for the leading ladies of the day. Some would even commission musical reviews and wear

The “money coat” from *Hamilton: An American Musical*. The original is now housed in the Smithsonian Institution.

Photo by Tovo Moreno/Courtesy of Artur Allakhverdyan



The reception area at the costume shop of Barbara Matera's, at 890 Broadway, in 2010. It is decorated with memorabilia from shows that were built there, as well as artifacts from several Broadway theaters. Matera's was the leading shop for decades. Most of the rest of the building was devoted to rehearsal space, so performers did not have to leave the building for fittings.

a different gown each night. Those were made by some of the early entrepreneurial women who straddled the worlds of theater and fashion, designing and building. Three of the best known are Aline Bernstein, Yetta Shimansky (who styled herself Kiviette) and the indefatigable Helene Pons.

Pons was among the first costume makers of any gender to open a large commercial shop with a wide array of equipment including the latest technology at the time, steam-heated dyeing vats. She also patented the first underwire bra. In 1926, Bernstein made history as the first female accepted into the Brotherhood of Painters, Decorators and Paperhangers Local 829, a chapter of the American Federation of Labor.

Kiviette was another crossover designer whose atelier made costumes for the stage in addition to bespoke gowns for wealthy clients. "It takes much more than talent to be a costume designer," Kiviette said. "You must be an astute business woman." She made costumes in a variety of shops until opening her own atelier in 1928.

As successful as the pioneering costume makers were, they were not able or

interested in providing the countless costumes to myriad productions on Broadway and around the country. Once producers had to provide all actors' costumes, a larger industry developed to supply those.

Three main businesses developed into large operations through the middle of the 20th century: Van Horn, Eaves and Brooks. Broadway was their showcase, but in many instances also a loss leader, in modern business parlance. Their main money was in making and renting military, police, professional and band uniforms.

After decades of competition, Brooks bought Van Horn to create BVH. Several years later Eaves bought BVH, creating the final combined business Eaves-Brooks. Through the heyday of the big rental shops, Broadway producers bristled at their power, especially expenses. On many occasions a producer or syndicate attempted to create its own in-house costume shop, but none lasted very long.

In the end it was a combination of factors that did in the big costume shops in New York. The departure of film, then television to California was a heavy blow.

Rentals to regional theater continued, but bands and circuses faded.

There was also new competition, starting in 1956. That is when Ray Diffen opened his first costume shop in New York. An Englishman, with strong credentials in Shakespearean costumes, Diffen set up shop in New York with a different approach than his contemporaries. It was the *via media* between the artisans and the big rental houses.

Diffen brought to America a young draper from England who went on to run possibly the most well-known shop on Broadway: Barbara Matera. Many of the shops serving Broadway today are owned by drapers who trace their legacy back to Diffen and/or Matera.

Despite that strong link, the entire theater-costume business was in peril when theaters around the country went dark for the pandemic. Shop owners formed the Costume Industry Coalition (CIC) to raise awareness and advocate for this ubiquitous but unknown segment of small business that had been literally hiding in plain sight for decades.

The CIC describes itself as:

...more than 50 small, unique, independent businesses and artisans, in and around New York City, who create and supply costumes for the entertainment industry. Standing alongside us are costuming colleagues from major NYC arts institutions. We transform the designer's two-dimensional sketches into custom, one-of-a-kind costumes for theatre, dance, opera, concerts, theme parks, cruise ships, ice shows, live entertainment and on television and film worldwide.

We employ hundreds of specialty artisans: pattern makers, cutters, stitchers, hand finishers, tailors, painters, sculptors, crafters and more. We infuse millions of dollars into the New York City economy through rent, payroll, taxes and other expenses. We support the historic Garment District by buying materials—fabrics, trims, notions, equipment—from local vendors.

John Kristiansen, owner of his eponymous shop, and his partner Brian Blythe are the main organizers of CIC, and also successful entrepreneurs in their own right. "When I started, it was me and two stitchers working out of my apartment in Astoria, Queens," said Kristiansen. "When we moved to our current space, I had nine employees, all dressmakers. It's been a natural progression over many years. We have 52 employees—and I'm extremely grateful for all the women and men who come to work with me every day."

Kristiansen also takes pride in the diversity of his team. The artisans he employs come from around the world—Azerbaijan, China, Columbia, Ecuador, Germany, India, Kyrgyzstan, Moldova, Poland, Russia, Ukraine and the United States.

Indeed, immigrants have always been a major force in the costume business, from England as noted, but also especially from Eastern Europe. For example, the shop owned by an Armenian makes the iconic "money coats" for the blockbuster musical *Hamilton*, designed by Paul Tazewell.

Artur Allakhverdyan, founder and owner of Artur & Tailors, is known professionally by his first name. He grew up and started his trade in Baku, but he had to leave in 1988 when fighting in the region meant it was not safe for an Armenian in the capital of Azerbaijan. He



Courtesy of Sally Ann Parsons

Sally Ann Parsons speaking to a group in her shop in Long Island City. Her shop built the costumes for the blockbuster *Cats*, among many other shows. The building, owned by Danny Geoly, was home to the last of the big rental shops, Eaves-Brooks. It is still home to the costume shop for Radio City Music Hall, and to one of the last big embroidery shops, Penn & Fletcher.



Photo by Tova Moreno/Courtesy of Artur Allakhverdyan

Artur Allakhverdyan in his shop, 2019.

came to New York by way of Ukraine and started in leatherwork before becoming a tailor at Barbara Matera's.

Artur went out on his own in 2009. "In 2014 we were working overtime on *Sleeping Beauty* when Paul Tazewell's design associate came to us asking for two jackets for his new show at the Public Theater," said Tova Moreno, the shop manager at Artur's. "We did not know anything about the show, and we were very busy, but the coats were green and that is my favorite color so I managed to convince Artur to take the work."

Readers of this magazine will know that money was not green in Alexander

Hamilton's time, but the show is as much art as history, and the original "money coats" are now on display at the Smithsonian Institution.

As with many large productions for Broadway, traveling shows and major regional theaters, *Hamilton* is so big that the costumes are made at several different shops. One is owned by Jennifer Love.

"Three to four years ago it was impossible to find tailors," said Love. "The established people were not training younger ones. There are plenty of street tailors, but that is very different from theatrical tailoring. For example, the jackets on stage have to move and fit differently."



The main workshop at Western Costume Co., West Hollywood, California in 2011. The largest single costume company, Western serves stage and screen; it made the Ruby Slippers for Judy Garland in *The Wizard of Oz*, and most of the costumes for *Gone With the Wind*.

Love trained herself and is now doing what she can to train others. “As long as you can tailor, I can teach you to make a theatrical jacket. We have one woman, she is from China, who was a hand finisher. She asked to learn tailoring, and she has been very good. We make the whole white-out scene for *Frozen*, all the white coats. She has worked on those.”

It has long been common to have family members in the business, especially on the business side, and Love is doing that as well: her adult son is helping with her invoices. Barbara Matera’s husband Arthur was the business manager for her shop.

“After 22 years, I am still learning the business side of running a costume shop. I know how to make a dress,” said Love with a laugh, “but I don’t know how to do taxes. My son helps keep the invoices in order. I have an accountant who does all the bookkeeping and taxes. I have a payroll company as well.”

The show that helps keep that payroll rolling is *Hamilton*. “We actually had 10 orders for the New York show that were paid for before we went down for four months [because of the pandemic],” said

Love. “We’ve been back since about the beginning of August [2020] and have been working on that. We also just got orders for *Frozen* Japan, and for *Hamilton* Australia. So, we’re back and we’re busy. My landlord was really good about rent while we were down.”

While the commercial costume business in and around New York is the largest such concentration anywhere in the world, the biggest single operation is Western Costume Co. in West Hollywood, California. In many ways it harkens back to the big rental shops of the mid-20th century.

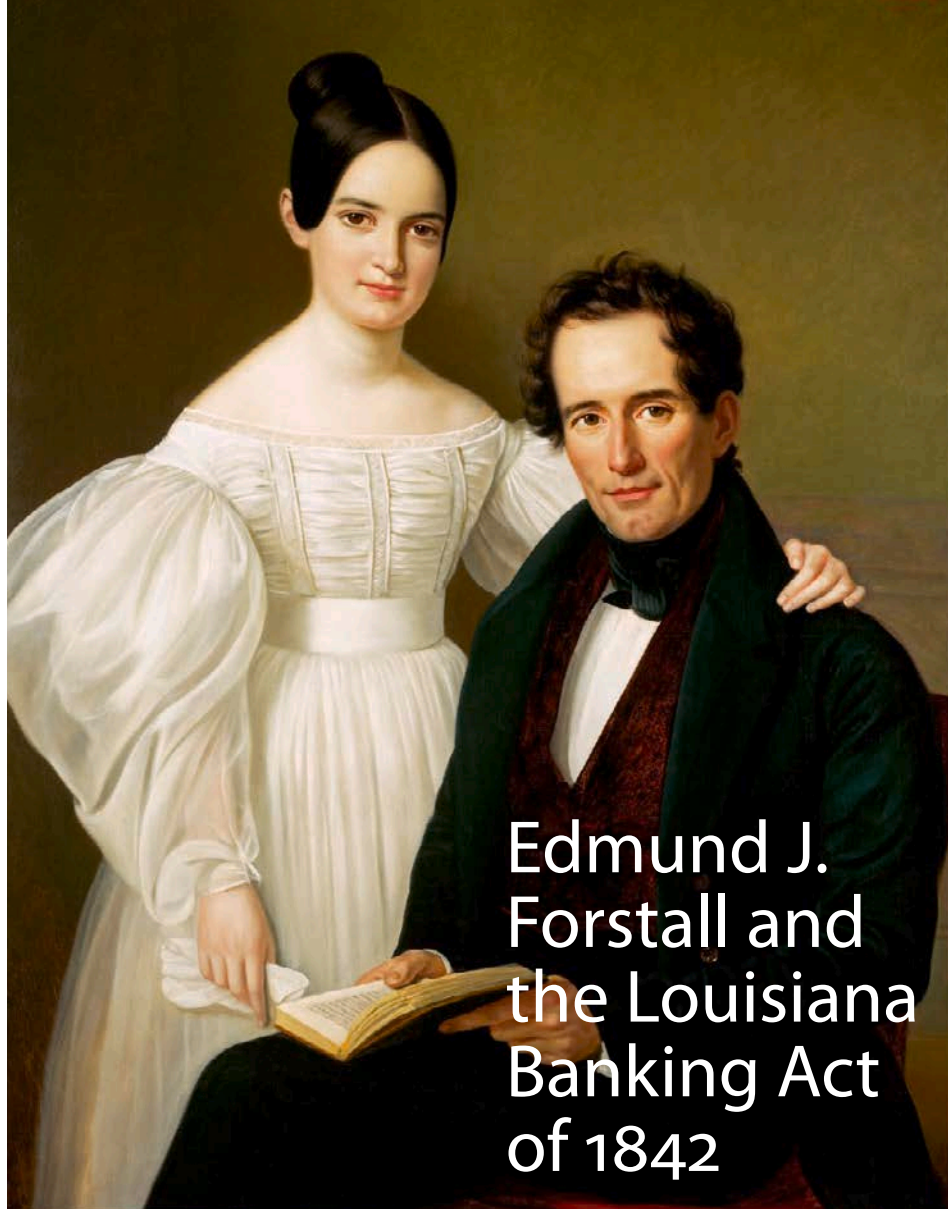
Western traces its legacy to the Benham Indian Trading Co., a large vendor of Native American blankets and baskets just after the turn of the century. In 1912, the outfitters opened a small film studio in a barn that was leased and then acquired by Cecil B. DeMille and became the start of Paramount Pictures. The barn is now the Hollywood Heritage Museum.

The outfitters retained the costume business with an emphasis on historically accurate Native and western wear. In the 1920s, while Aline Bernstein, Kiviette and

Helene Pons were making leading-lady gowns in New York, Western Costume sent buyers to Vienna to acquire clothes and artifacts from the defunct Austro-Hungarian Empire. In 1939, Western made the legendary ruby slippers for *The Wizard of Oz* and also many of the costumes for *Gone With the Wind*.

“There are no other shops like what we do here,” said Eddie Marks, president of Western. “The designer comes here and rents an office, does research, assembles a crew and pulls from our [vast] stock. Anything they can’t pull we can manufacture. Our research library is the largest in the world. Even New York theater people call us for research. We have a full shop: drapers, tailors, milliners, cobblers. Shoemaking is a specialty. The rule for Broadway is always new shoes.” \$

*This article is excerpted and adapted from the book, A History of the Theatre Costume Business: Creators of Character, by Triffin and Gregory DL Morris, with Rachel E. Pollock, published in October 2021 by Taylor & Francis. Copyright by the authors, all rights reserved.*



## Edmund J. Forstall and the Louisiana Banking Act of 1842

By Ramon Vasconcellos

EDITORIALIZING IN THE FALL OF 1842 how three of Louisiana's largest banks had weathered the Panic of 1837, the *Times of London* extolled Consolidated Association of Planters ("Planters Bank"), Citizens Bank and Union Bank for "struggling on in the payment of their dividends." These lauds proved a bit premature, consequently, given that the state of Louisiana had placed Union and Citizens into liquidation that October.

In fact, many state chartered banks throughout the country had liquidated during the 1837–1843 period, leaving the US Treasury no longer able to deposit

funds in the now defunct Second Bank of the United States. The Treasury was also limited as to the number of federal depository institutions extant, with only two throughout the entire South. As expected, the depression beginning in 1839 impacted planters (many in the South) who relied on banks for working capital.

The president of Citizens Bank in 1838, Edmund Jean Forstall, expressed his displeasure at that time with the lending operations of Citizens since, like several other southern banks, it had become accustomed to underwriting loans exclusively on mortgages and commercial property. Such risks only exacerbated the lending crisis that Louisiana experienced during the depression prompting Forstall—a co-chairman of the state's Joint Committee of Finance—into lobbying for a state banking reform bill. Through his efforts and cooperation with others, the Banking

Act of 1842 (often known as "The Forstall System") improved the fiscal stability of Louisiana's banks and became the model for subsequent banking legislation at the national level.

Forstall had much experience as a banking insider many years before the passage of the 1842 act. When engaged in merchant-banking (the financing of production and/or trade in commodities) after the War of 1812, he served as the director of the Louisiana State Bank in 1818. By 1829, Governor Pierre Derbigny appointed him comptroller for the Consolidated Association of Planters of Louisiana, the first "property bank" created by the legislature for the purposes of financing sugar production.

Property banks (sometimes referred to as "planter banks") formally existed for the purpose of supplying credit to those engaged in agriculture. During the 1830s, Forstall forged a partnership with Barings Bank of London that led to the creation of another one of Louisiana's property banks, Union Bank, co-owned by Barings' New York affiliate—Prime, Ward, King and Co.—with Forstall writing much of its charter.

Citizens Bank chose Forstall to fill a director's post, and he was subsequently elected bank president in 1836. His practices, however, ran afoul with the aims of the bank's directors. In the hopes of staving off fiscal ruin—though much to the displeasure of the Board of Directors—he restricted the amount of loans available for the purpose of maintaining adequate capital reserves. These actions prompted his resignation, but he later rejoined Citizens; upon the bank's suspension of specie for bank notes in 1839, Forstall made his resignation permanent by 1843. During his remaining years at Citizens, he became a member of the state legislature and, observing the need for greater regulatory authority over banks, began advocating for standardized banking practices within Louisiana.

At Citizens, Forstall described in a letter to a business associate abroad, "that the Bank should hold at all times an amount of gold and silver equal to one third of its whole cash responsibilities." Specifically, "Deposits and Bank [money in circulation] and also short commercial paper maturing in rapid succession," would help banks maintain their profitability. He further noted that in practice, Citizens during his presidency made loans on "short

Portrait of Edmund Jean Forstall with his 12-year-old daughter, Desirée Forstall, by Jean Joseph Vaudechamp, 1836.



\$5 note from the Citizens Bank of Louisiana, circa 1850s.

commercial paper” in order to cover two-thirds of its deposit liabilities, with others made for “accommodations for the furtherance of agriculture and industry.” In spite of such adoptions in the hope of maintaining some measure of fiscal prudence, his tenure as president was limited. The directors purportedly wanted to make credit more readily available in the wake of the Panic of 1837.

By the late 1830s and into the 1840s, Forstall’s reform efforts began to bear fruit. Gaining the attention of the legislature he offered a testimony entitled “Report on the Banking Situation of the Monied Institutions of New Orleans.” Proposed in 1837, Forstall advised the state legislature that, in part, the “Real Bills” theory of commercial lending be applied to state banks. By the early 19th century, “Real Bills,” also known as the “Commercial Loan” theory, had become an underlying criteria in the debate on how domestic banks should manage their loan portfolios.

Essentially, Real Bills assumed that if short-term commercial loans of no more than 90 days were underwritten for the purposes of financing inventory, banks would not have to worry about increasing the money supply and contributing to inflation. In effect, loans would be self-liquidating. Though not universally accepted as a rule of thumb in academic circles, nor practiced by contemporary bankers since inflation has been shown to increase the number of loans

in circulation, the doctrine occupied banking theory up until the early 20th century.

Throughout this period, Louisiana’s banks relied to a great extent on European investors as a source of capital. By the 1830s, however, the flow of European (especially British) investment accelerated, allowing for the establishment of 12 new banks within the state between 1831 and 1837. These institutions were capitalized from \$1–14 million and had total paid-in capital estimated at \$39.9 million by 1837.

Many of these banks were considered “improvement companies,” often functioning in their day-to-day activities much like banks. Unlike property banks, they operated like commercial banks, financing capital projects such as canals, railroads and hotels. However, their excessive lending practices (particularly in real estate), coupled with a national business contraction in 1839, made their vulnerability evident. Consequently, as a means of maintaining their fiscal stability, by decade’s end the state legislature began directly funding these improvement companies.

Forstall’s experience with Citizens Bank and his prior associations made him particularly aware of how property banks functioned and why regulation at the state level might improve their solvency. Although generally not as cavalier in their lending decisions as were many of the improvement companies/banks, the property banks sometimes had inadequate specie

reserves, thus contributing to their liability exposure. As to their financing, property banks were capitalized not through stock issuance but from mortgages pledged by the owners of commodities: cotton, sugarcane and rice, for example. In turn, these securities were used as collateral for loans when banks needed to borrow funds.

Similar in the composition and promotion of modern-day Mortgage Backed Securities (MBS) issued by Fannie Mae and Freddie Mac, the collateralized debt allowed the property bank’s managers to borrow against the mortgages they held. The funds were then used to generate capital. What’s more, Forstall had some hands-on experience in this practice, having actively participated in the marketing of such securities in Europe during his prior affiliation with Union Bank. As asserted by banking historian Irene Neu, such banks could expand credit and capital in areas—particularly for agricultural purposes—scarce in loan origination and investment funds.

As mentioned, during his brief association as a board member with Citizens until 1843, Forstall promoted banking reform. In his 1837 report to the legislature, he advanced the ideas put forth at Citizens, namely that “fundamental rules” should govern bank management. In part, his testimony noted that specie reserves ought to back up both notes in circulation and deposits; furthermore, loans would be restricted to those that “sustained their liabilities to advances

on short-term commercial paper.” Already the Bank of England had imposed such requirements on their banking operations by 1832, and former Secretary of the Treasury Albert Gallatin expressed similar ideas for the nation’s banks.

Still, as the bill progressed through the legislature, it had its critics, namely businessmen from New Orleans and throughout the state who viewed conservative lending practices as a hindrance to economic development. Forstall recalled some years later, “[I] was opposed by the whole commerce of New Orleans.” Furthermore, having some doubt as to its constitutionality, Governor Edward D. White vetoed the bill in 1838.

From 1837 and until its passage in 1842, the Louisiana Banking Act of 1842 underwent debate and revisions until a final, bipartisan piece of legislation was adopted. Pro-bank members of the Whig party and anti-bank Democrats in the legislature either fought (in the case of the Whigs) for a less economically stringent act or, like the Democrats, adoption of greater fiscal restraint over lending institutions.

Regarding party adherence and ideology, some writers have recognized nuances in the behavior of Louisiana’s politicians during this era. For example, as opposed to “Whigs v. Democrats” aligning themselves with their respective parties’ national platforms, differences on bank regulation in Louisiana at the time boiled down to “urban v. rural” interests with party affiliation playing little role. Still, national platforms have influence among regional and local politics, and Louisiana in the late 1830s was no exception.

Their philosophies on banking, while not entirely etched in stone and making compromise next to impossible, to some degree did reflect the contemporary attitudes of the national Whig and Democratic parties. The Whigs had supported the re-chartering of the recently defunct Second Bank of the United States against President Andrew Jackson’s efforts to abolish it. The Democrats (or “The Democracy”), believing that “hard money” (specie) should be at the crux of banking with banks maintaining sufficient specie reserves, supported an independent Treasury system.

These political delineations advanced at the national level had some impact on the debate over regulation. When Governor White (a Whig) vetoed the 1838 version of the bill, he implied that banks and the



Congressman Samuel Hooper of Massachusetts, who integrated the reserve ratio concept of the Louisiana Banking Act into the National Bank Act of 1863.

National Archives and Records Administration

“credit system” were fiscally sound. As to the suspension of redeeming paper money from the public in exchange for specie (a practice several banks had suspended in the wake of the Panic of 1837), Governor White blamed “external” causes brought on by Jackson’s veto of the re-chartering of the Second Bank of the United States.

Banking historian George Green indicated that anti-bank Democrats only tacitly expressed their reservations during the debate. However, after the bill’s passage, they voiced strong criticism blaming the Banking Act for contributing to the state’s economic woes.

Since a number of Louisiana’s banks had reneged on their specie payments by early 1842, the legislature wanted the Banking Act to address specie resumption. Early versions did, but the debate pitted those seeking immediate resumption against legislators wanting more generous timetables for redemption. The ensuing compromise between both Whig and Democratic factions allowed for a “post note,” which was currency redeemable in gold or silver coin at some future date.

Furthermore, insolvent banks and the potential equity losses sustained by their owners was an issue. The legislature then agreed to allow “strong banks” to accept assets of the aforementioned equal to the amount of notes in circulation they now held (at par value) of the insolvent banks. In addition, the act required fiscally sound institutions to hold loans originated by insolvent banks and granted borrowers owing the latter extended payment arrangements.

When Governor A.B. Roman signed the Louisiana Banking Act of 1842 into existence on February 5, 1842, its first section mandated that “loans on deposits and specie” backed by paper money issued by the bank “shall be restricted to 90 days, so as to effectually insure a rapid movement in the daily receipts.” The bill further stipulated that “the loans and investments on the capital shall be denominated the ‘deadweight.’”

The term “deadweight” referred to loans on capital due and payable beyond 90 days. Banks could not increase their deadweight without maintaining a cash liability-to-specie ratio of three to one; the remaining two-thirds was payable in 90 days. These two “fundamental rules”—rapid movement and deadweight—functioned as the cornerstone of the Banking Act by essentially dividing bank operations into separate categories along commercial and investment banking lines. In retrospect, Forstall had promoted similar “fundamental” rules for Citizens Bank in 1836. Presumably, his suggestions were incorporated into the Louisiana Banking Act, since he was a proponent of the legislation when co-chairing the Joint Committee of Finance in the late 1830s.

Financial historians have suggested such categories governing the act’s fundamental regulations might be defined, and better understood, by applying modern banking classifications relevant to commercial and investment banking operations. For example, bank specie and loans on deposit were more commercial banking in nature. The investment banking elements, on the other hand, involved deadweight assets.

Other stipulations required banks to publicize their financial condition and make weekly settlements, in hard money, of balances accumulated between banks holding one another’s notes. Green opined that publicity compelled banks to hold adequate reserves in hopes of ensuring confidence amongst creditors and depositors. The frequency of weekly settlements would force banks into redeeming notes, thereby not over-saturating the money supply and inflating the value of bank currency.

In the hopes of safeguarding bank solvency, the law even went as far as requiring the circulation of blacklists spotlighting debtors in delinquency to banks. Other regulations prohibited dividend payments when specie redemption had been suspended, restricted the use of a bank’s stock

as collateral for loans and outlawed speculation in agriculture and corporate stock.

In the wake of the 1842 law, the banking community seemed alarmed, if not outright hostile. “Fears are entertained that [the bill’s] consequences will be most disastrous both to the banks and the public,” commented Thomas Morgan of the New Orleans Collector’s Office. An official at City Bank lamented, “We have fallen on evil times, and our Legislature are doing everything in their power to hasten the ruin of the state.” Further, as the macro economy remained unstable, banks disagreed as to their proper role regarding the interbank cooperation that the act specified.

During this time, credit became even scarcer because of strict requirements on deposit liabilities. In addition, banks did not agree on the operational arrangements concerning interbank settlements. Solvent banks also began redeeming specie payments six months prior to the date stipulated by the act; this made it easier for solvent banks to shy away from converting the bank notes of their insolvent partners.

As a result, in 1842 alone 35% of note-holders found their bank notes non-convertible because of the actions taken by the fiscally sound banks. One New Orleans financial publication criticized the bankers stating, “A material depreciation of this paper was the immediate and natural result of the resumption of specie payments on the part of the banks.” Another point of contention involved the aforementioned proviso that sound banks absorb loans of less economically viable institutions.

Anti-bank Democrats voiced concern that policies enacted by the act contributed to the pre-existing economic dislocation plaguing both the country and Louisiana at the time. Consequently, both a Democratic governor and legislative majority were elected in 1842 with some members advocating for the elimination of all banks. Though prohibitions on banking activities did commence under Democratic rule, the Banking Act of 1842 remained in place.

The act would influence the soundness of the state’s banks in weathering future business downturns and contribute, in part, to ensuing domestic and federal banking legislation. The financial impact of the Panic of 1857, for example, is said to have had little effect on Louisiana’s banks. This was partially due to the South’s

reliance on cotton exports, but it can also be attributed to the reserve requirements enforced by the act.

Furthermore, in early January 1859, Louisiana’s specie resumption and deposits exceeded pre-panic levels with lending resuming its 1857 volume later in the year. Even throughout its debate and subsequent modifications, the legislation had its impact as far as New England, when Massachusetts lawmakers incorporated the reserve requirement idea into the Massachusetts Bank Law of 1838. Samuel Hooper of Boston, who later served in the US Congress and was a member of the Congressional Banking Committee, commented, “No one can doubt that the Louisiana law is safer for banks and the public” and that similar legislation should be passed “in every state where banks exist.”

Congressmen Hooper integrated the reserve ratio concept of the Louisiana Banking Act into the National Bank Act of 1863. As the nation’s first national bank law, nationally chartered banks had to meet minimum capital requirements and refrain from speculative lending, directives which were fundamental to the 1842 law.

In turn, the National Bank Act of 1863 laid the groundwork for the Federal Reserve Act established in the early 20th century, carrying forward the stipulation that reserve requirements were essential to banking solvency. Essentially, members of the Federal Reserve System had to maintain reserves on its customer’s deposits as a means of helping the Fed control the money supply. Though the Fed has a much larger scope of influence than did the Act of 1842, its practice in maintaining adequate reserves is rooted in Forstall’s ideas from the antebellum era.

Six years prior to Forstall’s death, Italian Senator Giulio Adamoli called upon the former banker when touring New Orleans in 1867. In a letter describing his visit, Adamoli recognized Forstall as an “active and vigorous man” possessing a “clearness of intellect.” He no doubt still exhibited traits notable to his days in the legislature and as a private banker.

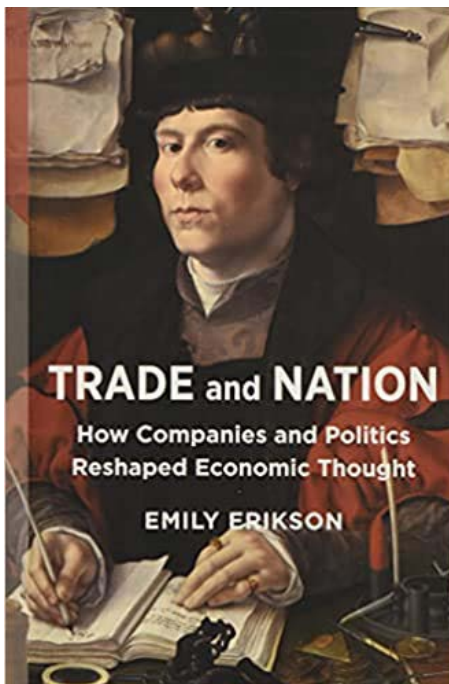
At the time of Adamoli’s stopover, Forstall had regained a degree of prominence lost in the wake of the Banking Act’s passage. His contemporaries offered more than just tacit respect for his judgment and financial acumen, while his chroniclers recognized the importance

of his legacy. Some financial historians have opined that his ideas may not have been anything new to commercial banking management, but instead pre-existing orthodoxies he chose to promote. Perhaps, yet “The Forstall System” instituted benchmarks and practices indelible to contemporary banking. \$

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### **Trade and Nation: How Companies and Politics Reshaped Economic Thought**

By Emily Erikson

Columbia University Press, 2021

298 pages with bibliography and index  
\$37.00

FOR MOST NON-ACADEMIC READERS of economic history and thought, Adam Smith's *The Wealth of Nations* (1776) is about as far back in time as they care to go. Smith gave us a clear-eyed view of how he thought businesses and economies work or should work. Specialization, the invisible hand, free trade, etc. were all concepts he wrote about that still animate discussions more than 240 years later.

Less known to the general reader is that Smith's observations and conclusions—and his motivation for publishing—owed considerable intellectual debt to writers who are less well known. In the decades of the 1600s, there was an active and broad community of authors who observed, reasoned, wrote and argued over the nature and interplay of individuals and enterprises engaged in economic activity. At the time, of course, they did not call it economics, but that is what it was.

According to Yale Professor Emily Erikson in her book, *Trade and Nation:*

*How Companies and Politics Reshaped Economic Thought*, the period 1580 to 1720 was an inflection point in the evolution of Western economic thinking. She focuses on England during this time period and identifies some key writers, as well as their motivations for writing. Important to know is that Erikson is a sociologist and attempts to go beyond simply describing emerging themes. Using tools common in sociology, she subjects tens of thousands of publications of the period to machine-based analysis to create data sets which shed light on motivations, affiliations and relationships among economic writers of the 1600s. The visual representations of her quantitative results on pages 148 and 160 are something you don't see often in business history books.

Erikson starts out by outlining the medieval view of trade, business and exchange. At the time, these activities were largely observed through the lens of religious teachings. Moral values were front and center and, hence, concepts of gain, growth and general prosperity took a back seat to salvation. Economic actors (my words, not theirs) were supposed to seek to achieve “fair exchange” rather than advantage or profit. Money was seen as a necessary evil and charging interest was, well...just evil. As the 1600s unfold, “fair exchange” as a recurring phrase in business publications is replaced, and key words like trade, politics, travel, finance and companies take a greater prominence. Morality begins to give way to commerciality.

At the center of this shift was the lowly merchant, whose societal status in England at the time was anything but lofty. Although many were rich and accomplished, their wealth came not from land, title or closeness to the Crown, but by buying and selling, often in foreign markets. We meet three of the most important authors of the time: Gerard de Malynes, Edward Misselden and Thomas Mun. They publicized and debated such themes as bullionism, wool and cotton trade, balance of trade and Crown-chartered companies.

These were more “modern” themes, and their arguments had only the thinnest

veneer of moralism applied. Of course, the East India Company makes an appearance—de Malynes and Mun, anti; Misselden, pro. They intended their arguments and observations to be public in nature, aimed at influencing Parliament and the Crown to adopt or change then current approaches to spurring national wealth. They stirred controversy and debate, and some of the back and forth was of a very nasty variety. Merchants were locked out of a place at the policy table and took to writing as an outlet to publicize perceived inefficiencies and unfair advantage. Resentment is usually a good motivator of intellectual debate.

Erikson goes again to quantitative analysis to explore this more deeply. Publications, authors and institutions are mathematically correlated. This allows us to view the larger corpus of publications, and to explore the relationships—networks, in her words—that existed between authors. We then travel across the North Sea to Holland, where the merchant class was at the center of decision-making, and so the impetus to discuss new economic themes was less acute.

The book has a clearly academic focus—there are phrases that flow regularly in the world of sociology that would have a hard time making it in a popular business history book. And the data set information is hard to navigate for the layman. But in publicizing a phase in economic thought that may be well known to some, but is less well known to others, it is an interesting read. Have a pencil at hand.

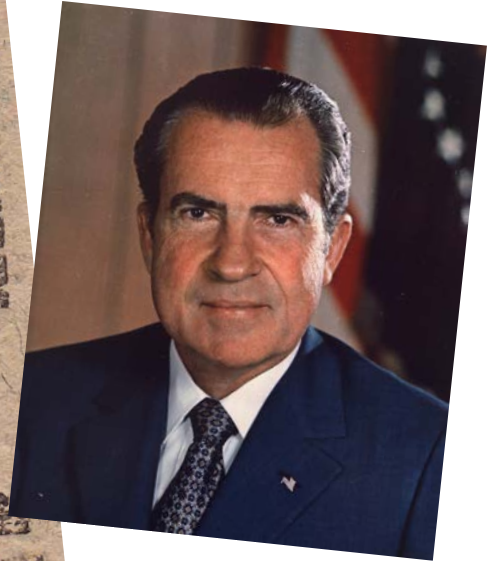
In her conclusion, Erikson returns to Adam Smith, reminding the reader that Smith was not some heartless capitalist, but a moral philosopher. His work argued that government intervention frequently hurts the less financially advantaged, and that morality did have a large part to play in how we should think about economics. \$

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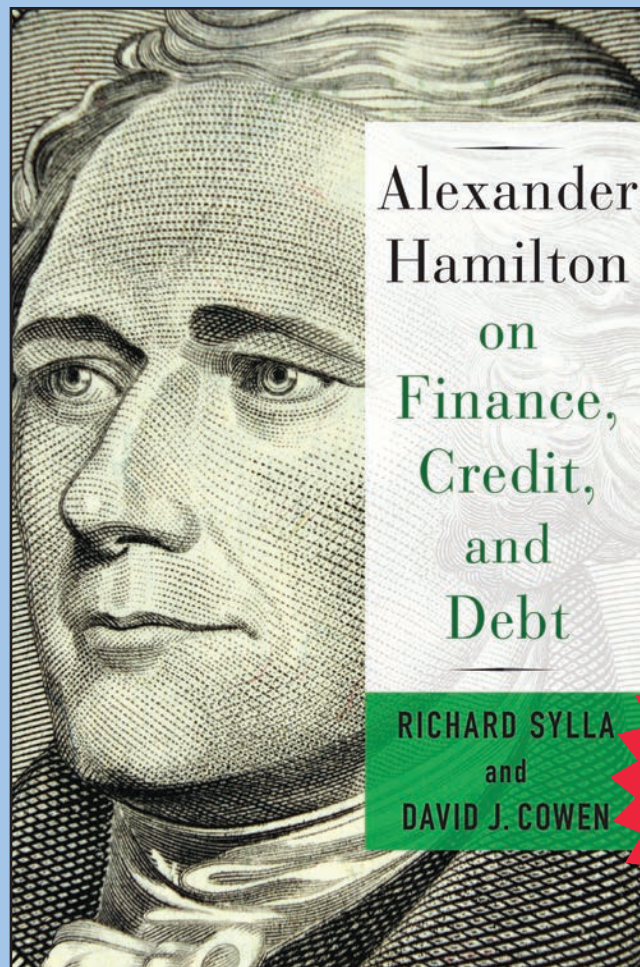
# TRIVIA QUIZ

HOW MUCH DO YOU KNOW ABOUT FINANCIAL HISTORY?

1. Which 20th century US President imposed a 90-day price and wage freeze to fight inflation and stabilize the economy?
2. What commodity is banned from trading on US futures markets?
3. In 1951, which company became the first in America with one million shareholders?
4. What 19th century stock promoter used newspaper advertisements to influence large groups of shareholders?
5. What agricultural economist's book influenced President Franklin D. Roosevelt to adjust the price of gold in the hopes of influencing farm prices during the Great Depression?
6. What comedian served as toastmaster at the opening of the Chicago Mercantile Exchange building in 1928?
7. What economist famously said of those attempting to predict future stock market performance, "There are two kinds of forecasters: those who don't know, and those who don't know they don't know."
8. In 2021, the US Mint announced a four-year program to depict women on the reverse of up to 20 quarter designs. According to US law, what must all of these women have in common?
9. What very successful value investor worked in a closet-sized office at Tweedy, Browne for about 40 years to minimize his office expenses?
10. What early American inventor and diplomat used his printing firm to produce colonial currency using nature prints as anti-counterfeiting devices?



1. Richard Nixon 2. Onions 3. AT&T  
4. Thomas Lawson 5. George F. Warren  
6. Will Rogers 7. John Kenneth Galbraith  
8. They must all be deceased; no living  
person may be featured on US currency  
9. Walter Schloss 10. Benjamin Franklin



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